YOU'RE IN THE PICTURE
09 • 10 ANNUAL REPORT

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Marine Atlantic
Marine Atlantique

Canadä

TABLE OF CONTENTS

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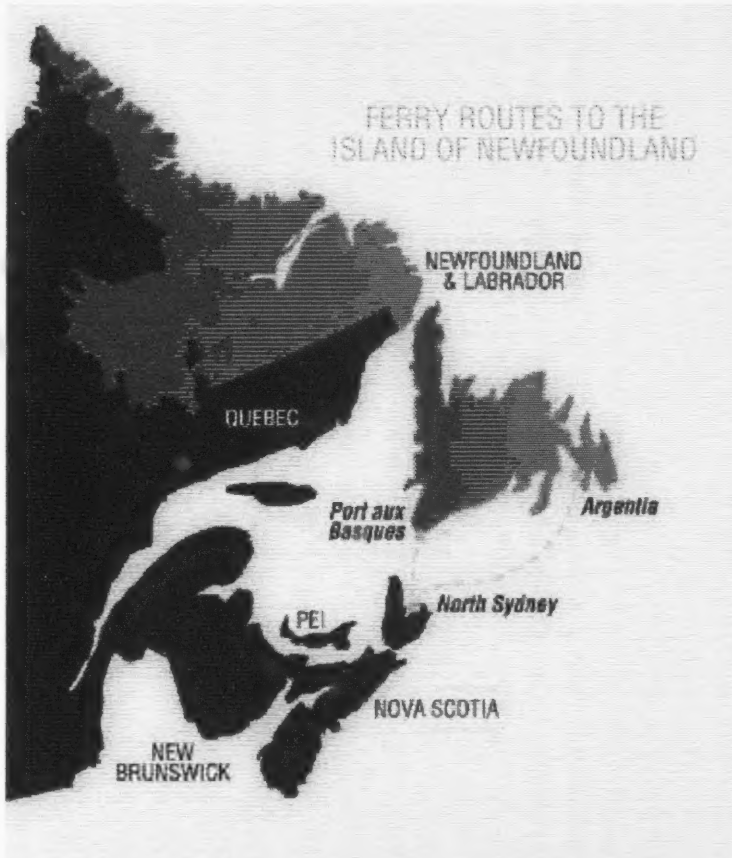
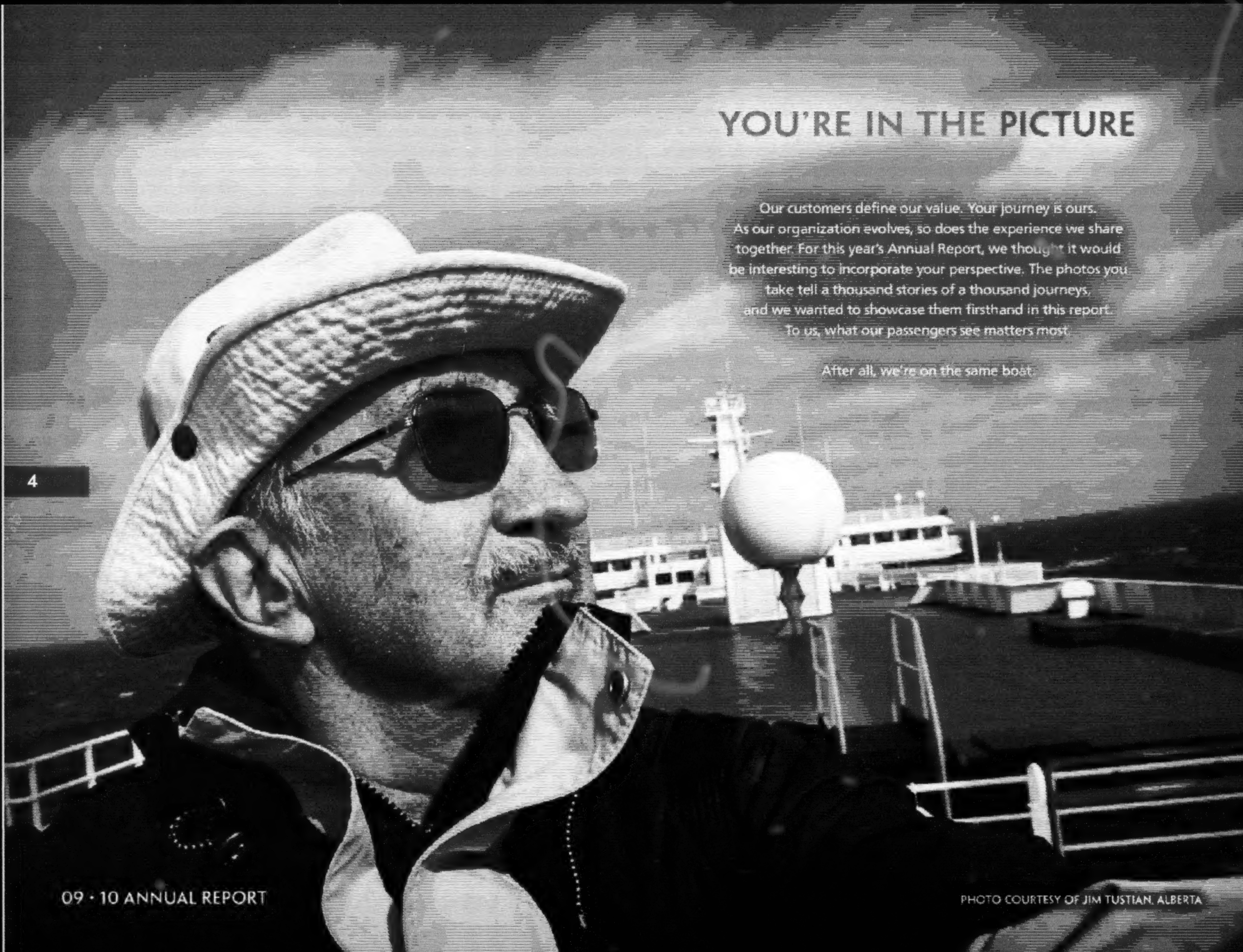


HIGHLIGHTS FOR 2009-10

Passengers	398,667
Passenger vehicles	139,011
Commercial vehicles	96,694
Number of one way crossings	1,972
Employees (peak employment)	1,303
Employees (full-time equivalent)	1,077

MARINE-ATLANTIC.CA



YOU'RE IN THE PICTURE

Our customers define our value. Your journey is ours. As our organization evolves, so does the experience we share together. For this year's Annual Report, we thought it would be interesting to incorporate your perspective. The photos you take tell a thousand stories of a thousand journeys, and we wanted to showcase them firsthand in this report. To us, what our passengers see matters most.

After all, we're on the same boat.

PHOTO COURTESY OF JIM TUSTIAN, ALBERTA

MESSAGE FROM THE CHAIR

Marine Atlantic saw its share of challenges in 2009/10 as it continued to struggle with aging assets and growing traffic demand. Customers and employees experienced another difficult summer season, with weather and mechanical delays interrupting our schedule and backlogging our traffic. However, we also introduced a myriad of positive changes in 2009/10 that established a foundation from which to grow and develop into a stronger Corporation.

We integrated the *Atlantic Vision*, a larger, newer vessel into the fleet to boost our capacity; we re-organized and introduced a new team of Vice Presidents to guide us in the right direction; and we developed new service areas to maintain positive momentum. Three new functions emerged in 2009/10: Customer Experience, Strategy and Corporate Affairs, and Quality, Risk, and Compliance. These new divisions lay the foundation for an improved Corporation, offering better service to its customers.

Partway through the year, the Office of the Auditor General of Canada (OAG) released a Special Examination of Marine Atlantic. The Special Examination re-affirmed what we as a Corporation already knew: significant challenges lie ahead with respect to resource constraints and aging assets. The OAG and Marine Atlantic both recognized challenges associated with aging assets, strategic planning and direction and recognized the immediate importance of addressing those challenges.

The Board of Directors has been actively involved with the Executive Management team to finalize the Corporation's Revitalization Strategy for this vital ferry service. Marine Atlantic worked closely with Transport Canada to successfully engage all necessary departments and agencies within the Federal Government and as a result closed the fiscal year with the Federal Government's announcement in Budget 2010 of a significant financial investment in our Corporation. On behalf of the Board of Directors, the management team and the users of the service I thank the Government of Canada for this renewed commitment at this critical juncture for Marine Atlantic.

The past year laid the foundation for Marine Atlantic to grow into a stronger Corporation. On the heels of a significant year of integration and reorganization, we're looking forward to implementing tangible changes in our service offering and delivery. In the next fiscal year, we're looking forward to being one step closer to bridging the gap between our capacity and the demand for our service, and to building the organization to provide efficient, effective service to our customers.

Rob Crosbie *Chair, Marine Atlantic Board of Directors*

MESSAGE FROM THE PRESIDENT

Management and corporate renewal in the face of significant operational challenges best summarizes 2009/10 for the management team at Marine Atlantic. As the reorganization rolled out, we welcomed three new Vice Presidents and through recruitment or advancement saw roughly 60 per cent of the senior management positions at Marine Atlantic occupied by new incumbents. A new management accountability framework was implemented along with enhanced programs aimed at employee recognition and training and the continued development of a long-term strategy to renew the ferry service.

Traffic demand continued to grow as we carried a record number of passenger vehicles, tractor trailers and drop trailers while coping with the capacity constraint of the aging fleet and shore infrastructure. Marine Atlantic experienced another difficult summer season, with weather and mechanical delays interrupting our schedule and backlogging our traffic. I am proud to say that our employees worked through these interruptions, moving 32,000 passengers through delayed crossings during one incident alone.

We integrated a new vessel, the *Atlantic Vision*, into our fleet in 2009/10. The *Atlantic Vision* offers increased speed, capacity and ice maneuverability; it is an asset to the Corporation and a benefit to our customers. On the other hand, the vessel was not purpose-built for our operations, so it took us some time to adapt. While employees were smoothing the bumps, customers onboard weighed in on the *Atlantic Vision* as well. Most customers were impressed with the speed, aesthetic appeal and amenities of the *Atlantic Vision*, but some saw areas for improvement. Marine Atlantic has commenced structural and program adjustment to address customers' concerns and we anticipate an even more positive experience with the *Atlantic Vision* in 2010/11.

Toward the end of the fiscal year, our Commercial Reservations system was launched. As anticipated, both Marine Atlantic and our commercial customers experienced challenges with the introduction of the system. As we move into 2010/11, we're working through these challenges to improve the program. In the end, the Commercial Reservations system will help with our capacity challenges and make our service more efficient overall.

The team at Marine Atlantic, supported by the Board of Directors, has worked tirelessly on a Revitalization Strategy and long-term funding proposal with the shareholder. I'm happy to say 2009/10 ended on a positive note with the approval of the strategy and a significant financial investment from the Government of Canada. It will take time, patience and much hard work, but I am confident the commitment by the Corporation and the shareholder to renew our assets and to re-engineer the business will result in a modern and efficient ferry service that meets the needs of our customers, stakeholders and employees.

Wayne Follett *President and CEO*

CORPORATE PROFILE


PHOTO COURTESY OF ERIC SNELLING, BRITISH COLUMBIA

CORPORATE PROFILE

WHO IS MARINE ATLANTIC?

Marine Atlantic Inc. is a federal Crown Corporation responsible for operating the ferry service between the Island of Newfoundland and Nova Scotia. Its vessels carry people, vehicles, and commercial units that deliver goods and products to and from the Province of Newfoundland and Labrador. It is constitutionally mandated to perform its transportation service.

The Corporation reports annually to the Government of Canada through the Minister of Transport, Infrastructure and Communities and works closely with the Minister of State (Transport). A Bilateral Agreement with the Government of Canada sets out the principles that govern the Corporation's relationship with the shareholder. It also outlines the funding agreements under which the Corporation operates its ferry services. While Marine Atlantic does generate some revenues from its operations, the majority of required funding is received from the Federal Government through Transport Canada.

Headquartered in St. John's, NL, Marine Atlantic operates terminals in the Newfoundland and Labrador ports of Port aux Basques and Argentia and the Nova Scotia port of North Sydney. The Corporation provides ferry services on two routes: a year-round 96 nautical mile daily ferry service between Port aux Basques and North Sydney and a seasonal 280 nautical mile tri-weekly ferry service between Argentia and North Sydney (which operates only during the higher traffic period between mid-June and late-September).

Marine Atlantic is a key employer in each of the three towns in which it operates. Its employees have stable employment opportunities that translate into significant direct and indirect benefits to these areas. Employment levels within the Corporation peak at more than 1,300 persons during the busy summer season. The workforce at Marine Atlantic is predominately unionized; approximately 97 per cent of employees are members of one of six labour unions.

To fulfill its mandate, Marine Atlantic operates a fleet of Canada's largest ice-class ferries: the *Caribou*, the *Joseph and Clara Smallwood*, the *Leif Ericson*; and the newest addition to the fleet, the *Atlantic Vision*, which started operating April 1, 2009, the beginning of the fiscal year. The fleet of vessels is maintained to high standards and codes such as *Transport Canada Marine Safety, American Bureau of Shipping, Lloyds Register* and *Det Norske Veritas Classification Societies*, and complies with the *International Safety Management (ISM) Code*.

To ensure the safe operation of vessels at sea, the international marine industry and, therefore, Marine Atlantic, is governed by various acts and regulations. These include: *Canada Labour Code, Marine Occupational Safety and Health Act* and Regulations, *Transportation of Dangerous Goods Act* and Regulations, *Marine Liability Act* and Regulations, *Canada Shipping Act* and Regulations, *Canada Marine Act*, and *Coasting Trade Act*. The Corporation also falls under the umbrella of the International Convention for the Safety of Life at Sea (SOLAS), the pre-eminent of all international treaties concerning the safety of merchant ships.

CORPORATE PROFILE CONT'D

MV Caribou
Built in 1986
Average Capacity: 870 passengers* and 340 AEUs**

MV Leif Ericson
Built in 1991 (Purchased in 2001)
Average Capacity: 400 passengers* and 280 AEUs**

MV Atlantic Vision
Built in 2002 (Chartered for 5 years in 2008)
Average Capacity: 710 persons* and 425 AEUs**

MV Joseph and Clara Smallwood
Built in 1989
Average Capacity: 1,000 passengers* and 320 AEUs**

CORPORATE PROFILE

THE OPERATIONS OF MARINE ATLANTIC

There are only two ways for people and goods to enter and exit the Island of Newfoundland – either by air or water. For passengers and freight not travelling by air, Marine Atlantic's ferry service is the only daily mode of transport between mainland Canada and the Island portion of the province. The service is therefore a vital transportation link.

Marine Atlantic transports a diverse range of traffic: passengers, passenger vehicles and their occupants, tractor trailers and drivers, drop trailers and other users of the road such as motor homes, tour buses and motorcycles. Commercial-related vehicles (CRVs) make up the majority of annual traffic volumes, and vary only slightly from month-to-month. The number of passenger–related vehicles (PRVs) rises in the summer as tourists travel to and from the Island. Monthly traffic volume follows a consistent pattern from one year to the next with a low in February to a high in August.

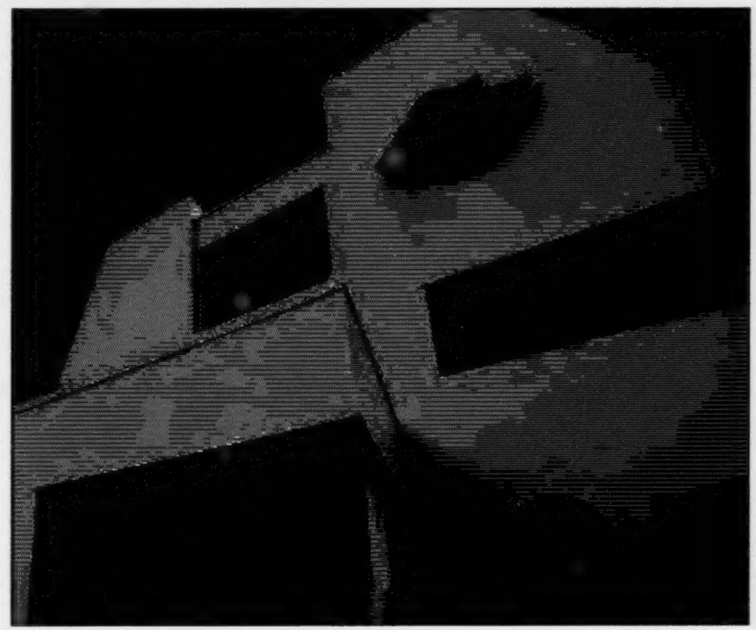
As the only year-round daily ferry service, the Corporation transports one-half of all goods entering the province, including approximately 90 per cent of perishable food items – fruits, vegetables, meats and poultry. In addition, Marine Atlantic transports the majority of the province's fresh food exports. Provincial industries rely on trucks carried by the Corporation to maintain a supply chain to customers that is competitive with mainland counterparts. Similarly, companies from outside Newfoundland and Labrador rely on Marine Atlantic to enable them to supply goods of all kinds to the Island, including: medical gases for hospital use; produce, groceries and retail supplies; and vital parts for the off-shore oil industry. In recent years, the volume of cargo to and from the Island of Newfoundland has continued a steady upward trend. Serving commercial customers is important to Marine Atlantic, as this customer segment represents the majority of the Corporation's business overall.

Marine Atlantic not only transports goods, it is also a valuable transporter of people.

* Average capacity: represents the average number of persons the vessel can comfortably accommodate based upon the services available on the vessel.

** AEU - Auto Equivalent Units: the maximum number of vehicles that can be accommodated on each vessel, based on the length of an average automobile.

Ferry travel supports the connection between Newfoundland and the rest of Canada, particularly the Maritime Provinces. Also, Newfoundland and Labrador relies on the Gulf ferry service to carry approximately 25 per cent of its non-resident tourists. More than half of the Corporation's passengers and passenger vehicles travel between June and August – the province's busiest season for tourism. Non-resident travellers using the ferry provide significant, quantifiable benefits to the overall economy, especially to the province's rural areas. This means that Marine Atlantic has also become an integral part of Newfoundland and Labrador's valuable tourism industry. The ferry service is also an important part of the greater Canadian economy as travellers to and from Newfoundland and Labrador spend time and money in Nova Scotia and other provinces.



CORPORATE PROFILE CONT'D

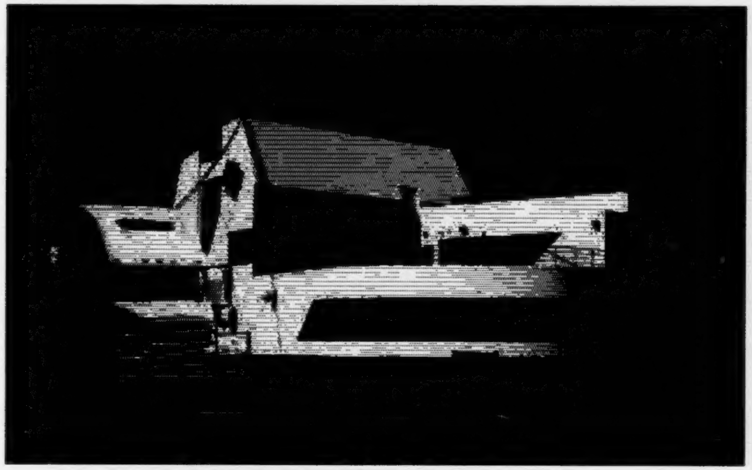
PHOTO COURTESY OF PETER YOUNG, ONTARIO

CORPORATE PROFILE

OUR OPERATING ENVIRONMENT

Marine Atlantic operates its ferry service in one of the most challenging nautical environments in Canada, and possibly the world – the Gulf of St. Lawrence. And since it operates year-round, this means the Corporation's vessels and crew must be capable of sailing during both pleasant summer weather and harsh winter conditions. Vessels must cross the Gulf, where winds of 40 knots or more can occur at any time of the year. Significant wave heights of four metres or more occur in summer and winter. Furthermore, severe ice build-up in the Gulf of St. Lawrence can impact operations during the winter months.

Without a doubt, Marine Atlantic's business is one that is governed by weather; the Captains and crew are constantly monitoring weather conditions to ensure safe sailings for passengers and crew. High winds and heavy precipitation present a constant challenge to the Corporation, and as such, there are times when the vessels cannot sail due to weather conditions. Marine Atlantic strives to minimize disruptions to the service, but weather delays are inevitable. At such times, the Captains, crew, and employees at Marine Atlantic work diligently to return the operations to regular schedules.



OUR MISSION

At Marine Atlantic, our mission is to provide a safe, environmentally responsible and high quality ferry service between the Island of Newfoundland and the Province of Nova Scotia in a reliable, courteous and cost-effective manner.

OUR VALUES

SAFETY
Ensuring the safe passage of all passengers and goods, plus a safe and healthy working environment for employees.

ENVIRONMENTAL RESPONSIBILITY
Taking appropriate measures to protect our environment, to reduce adverse environmental impact and to incorporate best practices in all operations.

QUALITY SERVICE
Ensuring customer satisfaction through the efficient and professional delivery of accessible service.

RELIABILITY
Providing consistent and reliable transportation to our customers, fair and open procurement of goods and services, and equitable hiring and employment practices.

COURTESY
Fostering a working environment that promotes meaningful communication, together with mutual respect, cooperation, honesty and integrity.

COST-EFFECTIVENESS
Ensuring appropriate utilization of resources and full accountability to our shareholder, the Government of Canada.

YEAR IN REVIEW

PHOTO COURTESY OF STEVE BENOIT OF STUDIONUMBERNINE.COM, MASSACHUSETTS

YEAR IN REVIEW

Despite the global economic turmoil of the last year, Marine Atlantic carried a record amount of Auto Equivalent Unit (AEU) traffic in 2009/10. Demands on the service grew 6.5 per cent for passenger related vehicles and 4.6 per cent for commercial vehicles when compared to the same period the previous year. Traffic is expected to increase again in 2010/11 to a new record level because of the strength of the Newfoundland and Labrador economy, and the growth in the province's tourism industry.

ORGANIZATIONAL RESTRUCTURING

2009/10 was a year of change for Marine Atlantic. At the beginning of the year, the Corporation put a new organizational structure in place, calling for new executive positions to improve planning and placing an increased emphasis on customer service. Marine Atlantic welcomed a Vice President of Strategy and Corporate Affairs and a Vice President of Customer Experience. Additionally, the vacant Vice President of Operations role was filled and the Chief Information Officer position was moved to the executive level. A Director of Quality, Risk and Compliance position was also created and filled to reinforce core areas of risk management, safety and security, and asset management. The internal audit function was also advanced to the director level with the creation of Director of Internal Audit. This position will be moved from St. John's to North Sydney to be closer to the Corporation's operations. The increased management capacity will enable Marine Atlantic to improve asset management, customer service, maintenance, information technology and quality, risk and compliance. A renewed focus on customer service training, internal communications and employee engagement across the organization will support the change needed to revitalize many aspects of the Corporation and its service.

HIGHLIGHTS OF ORGANIZATIONAL RESTRUCTURING 2009/10

DEPARTMENT	PURPOSE	TIMELINE
Strategy and Corporate Affairs	Strategic planning, policy governance, communications (external and internal) and legal affairs	Department created April 2009; Vice President position filled July 2009
Customer Experience	Improvements to customer service (onboard hospitality, passenger services, reservations, customer relations; customer-oriented leadership at the executive level)	Department created April 2009; Vice President position filled July 2009
Quality, Risk and Compliance	Risk, insurance, claims, safety, security and the environment	Director position filled late September 2009; new department structure approved November 2009
Information Technology	Information and telecommunications, business applications, reservations, etc.	Chief Information Officer position was moved to executive level April 2009

OPERATIONS

In the past year, Marine Atlantic integrated a new vessel, the *Atlantic Vision*, into its operations; moved a record amount of traffic despite a fire, two collisions with the dock and numerous engine problems with other vessels in the aging fleet; welcomed a new Commercial Reservations system; completed the Port aux Basques alternate dock; and planned vessel modifications for the *Atlantic Vision*, which were underway at year-end.

OPERATIONS HIGHLIGHTS OF 2009/10

Marine Atlantic moved 398,667 passengers in 2009/10 which represented a 3.5 per cent increase in the amount of passengers. Year over year, passenger vehicle traffic increased by 6.1 per cent with 139,011 vehicles moved. Commercial traffic also increased by 4.4 per cent with a combination of 96,694 straight trucks, tractor trailers and drop trailers carried. Overall, the Corporation's traffic demand continued to grow as the economy of Newfoundland and Labrador remained strong during a worldwide economic downturn.

THE *ATLANTIC VISION* – ONE YEAR AND COUNTING

During its first year of service, the *Atlantic Vision* carried 160,971 passengers, or 40 per cent of all passenger traffic, across the Gulf. In addition it carried 38 per cent, or 89,253, of all passenger and commercial vehicles. The *Atlantic Vision* was in operation for 336 days in 2009/10, or 92 per cent of the year. It surpassed the next closest vessel, the *Caribou*, by 13 per cent, which was in operation 79 per cent.

The *Atlantic Vision* entered service in April 2009. With its increased speed, capacity and ice maneuverability, the vessel provided a much-needed boost to Marine Atlantic's overall capacity. It has proven to be an asset to the Corporation and a benefit to customers.

As with the introduction of any new vessel, the process to introduce the *Atlantic Vision* was not without its operational and mechanical difficulties, as staff became familiar with the vessel's idiosyncrasies and worked it into daily operations. Ramp heights had to be adjusted, loading patterns established, and wind thresholds understood. At the same time, the crew trained on newer technologies. Despite the learning curve, the crew and shore personnel adapted quickly.

The first major challenge presented itself in late July when the vessel's thermal heating unit malfunctioned, resulting in a contained fire. Marine Atlantic removed the vessel from service for three days for repairs. The Corporation cleared the backlog of traffic – more than 32,000 passengers – in nine days and returned to the published schedule. In addition, the vessel's length and height contributed to navigational incidents in Port aux Basques where on two occasions, while docking, the vessel was hit by sudden wind gusts, forcing it on the dock and resulting in minor damage.

Marine Atlantic also learned through the integration of the *Atlantic Vision* that passengers preferred a greater amount of public seating and washroom facilities. In the coming year, 18 cabins will be removed from the vessel to allow for a seating area equipped with 115 airline seats and three additional washrooms. This project is anticipated to be completed by mid-June 2010.

The *Atlantic Vision* was a much-appreciated addition to the fleet and relieved some of the capacity strain during the 2009/10 peak season. The vessel has proved to be a reliable and steady performer and has the ability, because of its speed, to recover quickly from schedule delays. The *Atlantic Vision* is poised to serve the Corporation effectively in the years to come.

TERMINAL OPERATIONS

Vessel turnaround times for the majority of voyages were carried out as scheduled. Delays occurred when mechanical issues arose with vessel ramps and cabin preparations. Terminal staff dealt with concerns and demands of an ever-increasing number of customers and maintained a steady flow of passengers and vehicles in a safe and efficient manner throughout the year.

MAINTENANCE

The *Joseph and Clara Smallwood* and the *Caribou* have proven to be occasionally unreliable due to their age, the harsh operating environment, and the schedule they are required to keep during peak season. According to industry standards, these vessels have passed their economic life of 25 years and are subject to a host of mechanical problems. Although safety is never compromised, many crossings were delayed this year due to mechanical problems with machinery and hydraulic system failures to a point where they were functioning below normal operating parameters.

YEAR IN REVIEW

WEATHER

Weather is always a factor when operating on the Gulf of St. Lawrence; 2009/10 was no exception. Severe weather conditions including gale force winds, a hurricane and a tropical storm as well as an unprecedented three day suspension of service due to severe winds plagued the Corporation. During summer 2009 when a significant weather event was eminent, the Corporation took a proactive approach to ensure customer safety and satisfaction. Sailings were postponed until after the weather event.

Notification of a suspension of operations was made in advance through the media and the Corporation's website, with the expectation that this proactive approach would encourage customers to delay travel plans rather than overflowing the terminals beyond capacity. This proved to be very successful. Many customers were aware of the delays and opted not to travel to a Marine Atlantic terminal; instead, they made alternate arrangements until the vessels were operational again. The Corporation learned a great deal from the experience, what worked and did not work in reaching customers, and is adapting policies and practices accordingly.

NORTH SYDNEY

The fiscal year 2009/10 saw further investment in the North Sydney Terminal, including the installation of a Moorex vessel securing system, and the arrival of two new shunt trucks. In September, $9.5 million in funding was made available as part of the Government of Canada's Infrastructure Stimulus Fund for improvements to the North Sydney terminal. These improvements include adding a second level to the alternate dock, which will increase loading efficiency and decrease redundancy. Construction began in late 2009/10, and is scheduled to be completed by the end of the 2010/11 fiscal year.

ALTERNATE DOCK IN PORT AUX BASQUES

The Corporation completed the construction of an alternate dock at the Port aux Basques terminal. This dock will allow for an alternative to the main dock in the case of breakdown or preventative maintenance repairs to mechanical components of the dock ramps.

PASSENGER TRAFFIC: PASSENGERS

- *Atlantic Vision* 40%
- *Caribou* 34%
- *Joseph & Clara Smallwood* 23%
- *Leif Ericson* 3%

AEU TRAFFIC: VEHICLES

- *Atlantic Vision* 36%
- *Caribou* 32%
- *Joseph & Clara Smallwood* 18%
- *Leif Ericson* 14%

QUALITY, RISK AND COMPLIANCE

As part of the Corporation's reorganization a new Division of Quality, Risk and Compliance was created to increase focus on preparedness and prevention. The director of the new Division is a member of the Executive Management team, ensuring the areas of safety, security, environment, risk, insurance, and claims are top of mind and continue to be developed within Marine Atlantic.

The Corporation spent a great deal of 2009/10 developing and implementing a Pandemic Preparedness Plan to ensure the health and safety of Marine Atlantic employees and customers and the continuity of service.

Activities commenced in April 2009, when Marine Atlantic's Safety Department started working with Health Canada to circulate H1N1 updates to employees and distribute the recommended sanitizer to all vessels and shore facilities. The Corporation followed up by circulating cleaning and disinfecting procedures in May. On June 11, 2009, the World Health Organization declared the outbreak of the H1N1 flu to be at Phase 6 or a "global pandemic."

At the end of June 2009, the Corporation formed a Pandemic Planning Committee (PPC) that included senior managers and designates from all areas of the organization. The PPC developed a Pandemic Preparedness Plan to mitigate, to the greatest extent possible, the effects of a pandemic flu outbreak and to best enable Marine Atlantic to maintain its operations in the event of a pandemic flu crisis.

In September 2009, the Quality, Risk and Compliance department was tasked with assessing and accelerating Marine Atlantic's state of readiness ahead of the anticipated "second wave" of pandemic flu expected to arrive in October/November 2009. A Pandemic Task Force was created to expedite the completion of the plan, ensure essential supplies could be stockpiled, and educate employees about how to prevent exposure and contamination by the virus. Business Continuity Plans were created for all departments to allow "critical functions"

to continue during a pandemic. Readiness audits were completed in all work areas throughout the Corporation to maintain vigilance and preparedness.

In 2009/10, Marine Atlantic held H1N1 information sessions and vaccine clinics in each of its employee locations (North Sydney, Port aux Basques, and St. John's), kept employees updated on the status of the outbreak, and educated employees on how best to avoid exposure to the virus.

This past year also saw Marine Atlantic participating in Phase III of Environmental Site Assessments for its three ferry terminals at North Sydney, Argentia and Port aux Basques. This was required by the Land Lease Renewal process between Transport Canada and Marine Atlantic. Phase I and II of the Environmental Site Assessments supports the need for Marine Atlantic to develop an Environmental Management Plan which will contain sections on fuel management, water management, wastewater management, solid waste management, air emissions, security and the transportation of dangerous goods. Completion of Phase III Site Assessments with final reports can be expected in the first half of 2010/11.

In the fall of 2009, the Corporation undertook several risk planning workshops and sessions to identify, rate, and rank the Corporation's top strategic and operational risks. A Corporate Risk Register was created by management and reviewed by the Audit and Risk Committee of the Board of Directors in December 2009. Risk planning workshops were also held for various departments starting in January 2010 and draft Departmental Risk Registers have been created to allow managers to monitor risks that affect their departments and the Corporation. The Risk Registers also allow managers to focus their resources and time on high risk areas.

SECURITY

Security at Marine Atlantic includes the physical security of passengers both on-shore and on the vessels, safeguarding cargo and assets, and securing the environment in which the Corporation conducts business. Marine Atlantic's goal is to meet and/or exceed maritime security requirements. The Corporation is governed by the International Ships and Port Facility Security (ISPS) Code and the Marine Transportation Security Regulations (MTSR) Part III, both of which require vessel and port facility security plans for foreign flagged ships such as the *Atlantic Vision*, as well as the Domestic Ferries Security Regulations (DFSR) which govern Canadian flagged vessels and port facilities. The Ship Security Plans for the *Atlantic Vision, Caribou, Joseph and Clara Smallwood* and *Leif Ericson*, and the Marine Facility Security Plans for the port of North Sydney and Port aux Basques have been certified by Transport Canada.

CUSTOMER EXPERIENCE

During the summer of 2009, Marine Atlantic welcomed a new Vice President of Customer Experience to provide customer-oriented leadership at the executive level to help the Corporation significantly improve customer service. Key priorities and responsibilities include leading a team to ensure customer experiences are consistent and smooth, reinforcing efforts to strengthen customer service across the Corporation, and ensuring that service follows corporate policies and relevant legislation. This new role will also help the Corporation generate revenues from transportation, amenities, and both on-board and on-shore customer experiences to contribute toward cost recovery.

Over the past year, the Customer Experience department has laid the foundation for a plan that will guide all aspects of customer service including: marketing, new service development, and pricing and service delivery. In addition, a comprehensive research program was initiated to identify what drives customer satisfaction and to ensure the Corporation has a deep understanding of what constitutes value for the different customer segments.

COMMERCIAL RESERVATIONS SYSTEM

A new Commercial Reservations system came into effect in March 2010. The system is helping to maximize the Corporation's allocated space for commercial cargo. It is also effectively controlling space issues at the North Sydney and Port aux Basques terminals. At the close of the year, the Corporation was still working through some issues with the system and continues to work closely with the transport industry. The Commercial Reservations system will enable Marine Atlantic to even out demand for commercial cargo space, but it is not the answer to all capacity issues. As Marine Atlantic faces growing demand, there are anticipated challenges with the new system during the 2010 peak season.

CANADIAN FORCES APPRECIATION FARE

Marine Atlantic introduced a special program in 2009 to recognize the significant contribution of the Canadian Forces, particularly those from the Atlantic region. The Canadian Forces Appreciation Fare 2009 provided Canadian Forces members and veterans with a complimentary passenger fare on the Port aux Basques – North Sydney ferry route. As many as three companions travelling in the same vehicle and on the same reservation also received complimentary passenger fare. In addition, members of the Canadian Forces and up to three companions travelling on the same reservation received a 50 per cent discount on their passenger fare when travelling on the Argentia – North Sydney ferry service. More than 10,000 qualifying individuals and their friends and families availed of the program. The Corporation was extremely pleased with overwhelming support for this initiative and it will offer the Canadian Forces Appreciation Fare again in 2010.

MARINE ATLANTIC WINS 2009 BUSINESS AWARD FOR INDEPENDENT LIVING

Marine Atlantic has been recognized as a leader in the marine industry for providing accessible transportation for persons with disabilities. The Corporation received the Business Award for Independent Living from Newfoundland and Labrador's Independent Living Resource Centre. The award recognizes an innovative approach to supporting the full inclusion of people with disabilities in areas such as employment, transportation, housing, communications and technology.

STRATEGY AND CORPORATE AFFAIRS

The new Strategy and Corporate Affairs Division has responsibility for strategic planning, policy, governance, communications (external and internal) and legal affairs. The Revitalization Strategy became the responsibility of the Strategy and Corporate Affairs Division, allowing key resources throughout the Corporation to refocus their priorities to their appropriate departments.

The Revitalization Strategy builds upon the Long Term Strategic Fleet Renewal Plan submitted to Transport Canada in 2008, and updated the asset renewal elements and broadened the scope and scale of the strategic renewal to address areas of weakness identified by the shareholder, Board of Directors, management and the Office of the Auditor General. The department presented the Strategy to its shareholder in fall 2009.

The Strategy and Corporate Affairs Division's increased focus on revitalization includes stronger stakeholder relations efforts that will reinforce Marine Atlantic's presence and connections across Atlantic Canada. The Division assumed the interface role with Transport Canada's Ferry Policy and Programs group. This facilitates flow of information, prioritization of information requests and workload management.

The new Division also brings an increased focus on internal communications for the Corporation. The goal is to keep employees better informed of corporate initiatives, and is seen as one of the significant enablers of the cultural change process underway within Marine Atlantic. In late 2009/10, a new internal monthly newsletter, *Strait Talk*, was launched. Each month it presents articles and information from all the key areas of the Corporation.

HUMAN RESOURCES

In 2009/10 the Human Resources Division continued to position Marine Atlantic as a desirable place to work, which echoes the positive changes across the Corporation. As a part of the management renewal process, the Corporation was able to attract potential employees for the majority of its vacant positions including three executive and three director positions. Attracting and retaining an adequate number of licensed engineering officers remained challenging for the Corporation, highlighting the skills shortage in this industry.

Significant human resources initiatives this year included:

Employee Wellness Program – employees participated in a wellness challenge, additional health screening clinics and an online health risk assessment. This was the third year for the @live Challenge, which encourages employees to change their lifestyle habits to be more healthy and track their progress.

Disability Management Program – the Corporation continues to manage employee work-related and non work-related absences; the program saw an 8.9 per cent reduction in premium costs for group insurance rates.

Management Renewal Process – the Corporation promoted excellence in people management throughout 2009/10 and introduced accountability agreements for vice presidents and management.

President's Awards and Distinction Awards for employees – Marine Atlantic introduced new awards to recognize employees for commitment to their work and to providing exceptional customer service.

Training – Marine Atlantic's training efforts focused on safety, security, customer service, required regulatory training, new employee orientation, and internal IT systems.

LABOUR RELATIONS

Marine Atlantic continued negotiations throughout 2009/10. At year-end, there were four agreements in various stages of the negotiation process. The Canadian Merchant Service Guild (CMSG) Agreement A was set to begin arbitration. The parties involved in the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW - Canada) Agreement C were in the process of selecting an arbitrator for a final and binding determination. The Canadian Merchant Service Guild (CMSG) Agreement E had selected dates for Federal Mediation and Conciliation Service. Collective bargaining was set to continue for the Public Service Alliance of Canada (PSAC) Agreement F. In the last quarter of 2009/10, an agreement was ratified on the outcome of a job evaluation process and salaries for employees represented by this agreement.

The agreement for the Canadian Auto Workers (CAW) representing unlicensed vessel personnel will expire in December 31, 2010.

TALENT

During 2009/10, the Corporation transitioned to a new service provider to ensure a consolidated and comprehensive approach to talent acquisition. The new approach was introduced in January 2010 and will be used for the 2010/11 hiring season. The system allows for a more seamless application process and additional online assessment tools.

During 2009/10, the Corporation hired to fill both entry level and officer positions. There were some challenges finding engineering officers, a direct symptom of the skills shortage in that field.

Marine Atlantic continued its partnership with the College of the North Atlantic (CNA) and launched the first 10-month program for Assistant Stewards in the fall of 2009. The Corporation provided input into the formal program, as well as a work placement on our vessels. A number of students who successfully completed the program were selected through our talent management program for appointment for the summer of 2010.

A partnership was also developed with the Nova Scotia Community College for a 10-month training program for Assistant Stewards. This will follow a similar format to the CNA program and is expected to be offered in the fall of 2010.

Students from one of the local high schools were given the opportunity to shadow Marine Atlantic deck and engine crew to better understand the work and future career options. This program will be extended in 2010/11 as a component of workforce planning.

The School Plan was reintroduced in 2009 to provide for internal development for certification advancement for our officers. The program has been offered to both deck and engine staff, and will be reviewed and offered in future years based on our requirements.

Marine Atlantic offered its student employment program again in 2009/10 and branched into social media to reach potential student employees in the online setting. For the first time, Marine Atlantic used Facebook to reach the student population with specifically-designed advertising. The Corporation will continue to offer employment opportunities to students to support its seasonal requirements.

TRAINING

The Corporation continued its crew training programs to comply with certification as required by the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers 95 (STCW 95). Training topics included Passenger Safety Management and Specialized Passenger Safety Management. Marine Atlantic is recognized as a major provider of this type of training. The Corporation also continued to train and certify passenger services staff in safe food handling procedures as well as regulatory issues.

WORKPLACE ASSESSMENTS

Recognizing the need for change, Marine Atlantic commissioned a consultant to conduct two workplace assessments during 2009/10. As part of the assessment process, employees took part in one-on-one interviews to share their views on the workplace and relationships. Findings from the assessments led to changes in the Corporation.

REWARDS AND RECOGNITION

Marine Atlantic introduced its new Rewards and Recognition Program as a critical part of the organizational renewal program that builds on existing service awards and retirement events. The new program provides the opportunity for individuals and teams to win awards for their performance.

The program consists of informal recognition, in which Marine Atlantic encourages managers and supervisors to acknowledge employees for their achievements. As part of this informal approach, the Corporation introduced the Ripple Award, an immediate award for recipients selected by department managers based on specific criteria.

The formal recognition program includes annual Distinction Awards to recognize achievements that are above and beyond normal expectations, and a President's Award to recognize the most distinctive, notable achievement across the Corporation.

THE RIPPLE AWARD

Marine Atlantic invited employees to submit suggested names for a new award introduced as part of a new informal recognition program. Deborah Pelley, a stevedore in North Sydney, and Julie Serroul, a North Sydney-based administrative assistant, suggested the award be named The Ripple Award.

The concept behind the name is described as follows: It takes many ripples to make a wave. Each employee at Marine Atlantic represents one ripple. If every employee, or "ripple", worked together to improve our workplace, we would create a giant wave of positive energy. This wave of positive energy would boost morale, improve working relations between employees, and generally make working at Marine Atlantic a more enjoyable experience. The Ripple Award reminds us that it takes many "ripples" working together daily to make a lasting wave of positive energy in our workplace for the betterment of all.

TRAINING

Regulatory and Canada Labour Code training programs are required on a yearly basis for courses such as Confined Spaces, Confined Space Refresher, Lock-Out Tag-Out, Man-lift, Forklift, Fall Arrest, Oil Spill Response, Safe Boating, Safe Food Handling, Safe Serve (Alcohol), Transportation and Handling of Dangerous Goods, Fit Testing, Workplace Hazardous Materials Information System (WHMIS), Occupational Health & Safety and Persons with Disabilities. Marine Advanced First Aid and Fast Rescue Craft (FRC) training, which is a regulatory program, is now being implemented to ensure compliance for crews of the *Atlantic Vision* and the *Caribou*.

INFORMATION TECHNOLOGY

The Information Technology department had a significant year, with the Chief Information Officer position being elevated to the executive level, introduction of the *Atlantic Vision*, commercial reservations, and updates to business applications.

The introduction of the *Atlantic Vision* represented a significant change in information and telecommunications technology compared to the existing fleet. Marine Atlantic's Information Technology Plan for the vessel was implemented and the transition was successful. However there were some challenges with the vessel's Internet satellite technology infrastructure. As a result, Internet was not available to *Atlantic Vision* passengers during the 2009/10 season. This caused a one year delay in the implementation of the Internet Café and Business Centre on board.

In March 2010 the Corporation implemented commercial reservations, which is a fully integrated component of Marine Atlantic's passenger reservation system. This project deals with the enhancement of the ticketing and reservations system in the area of vessel load management and self-service.

The past year has seen re-investment in existing business applications with upgrades completed for the Payroll Department and Human Resource Division. The Corporate Enterprise Resource Planning (ERP) system was upgraded along with the vessel maintenance management systems, enabling the integration between the two systems.

FINANCIAL OVERVIEW

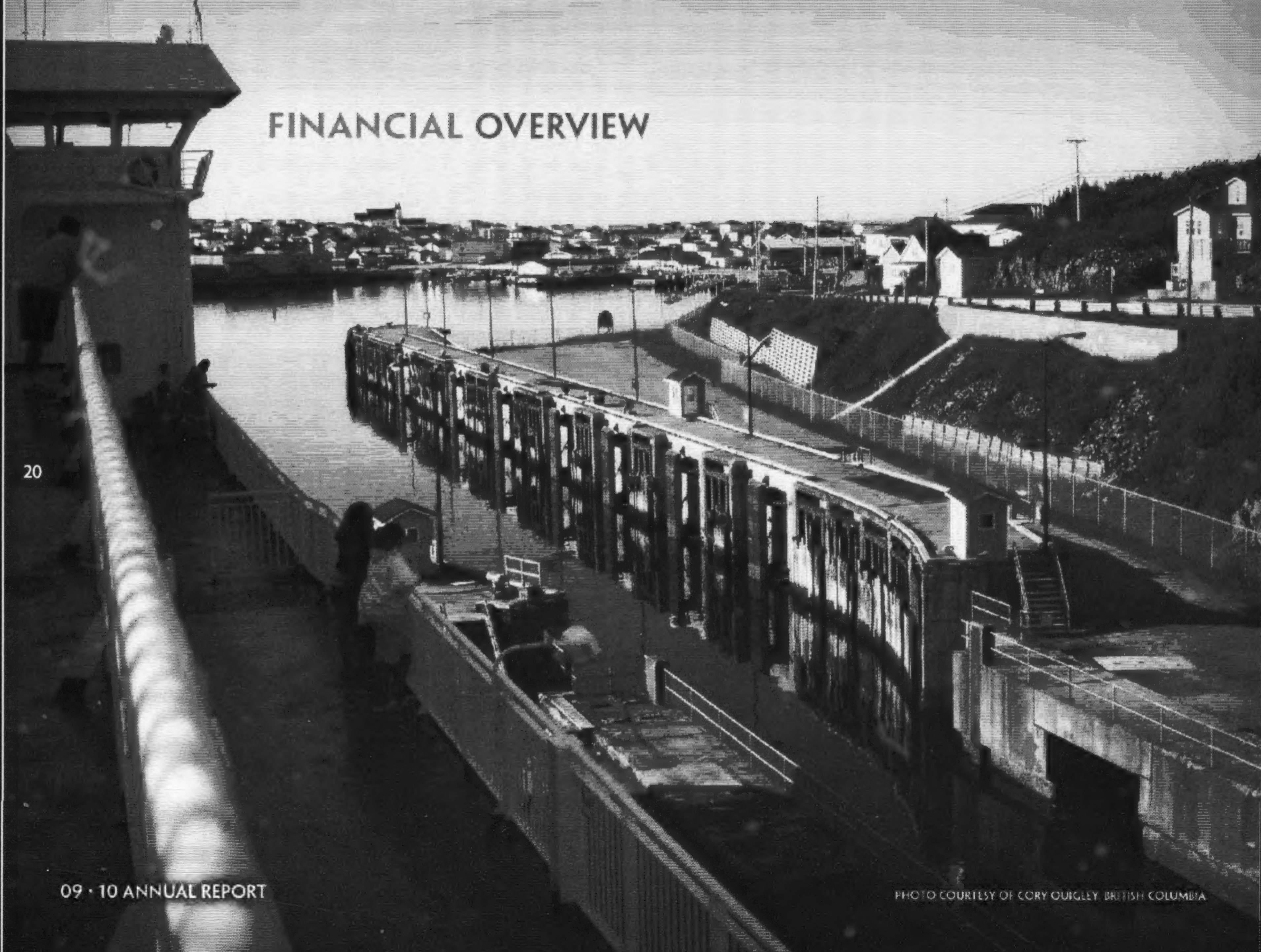


PHOTO COURTESY OF CORY QUIGLEY, BRITISH COLUMBIA

FINANCIAL OVERVIEW

As a federal Crown corporation, Marine Atlantic receives a significant annual subsidy from the Government of Canada via its shareholder Transport Canada. In 2009/10 the Corporation spent $205.5 million; $83.5 million was generated via customer tariffs and other ancillary revenue; and the remainder of $123.5 million was provided by the federal government.

REVENUE

Commercial revenue increased by 12 per cent in 2009/10. Total vehicles carried increased by 5 per cent compared to the previous year. In addition to general rate adjustments, a new drop trailer management fee structure was implemented in the fall of 2009, which significantly increased revenues from the drop trailer service. Fuel surcharge revenue was down by $6.5 million this year as fuel prices retreated from the record highs of 2008.

Year ended March 31 (2010, 2009, 2008 & 2007) December 31 (2006) *(in thousands)*

	2009-10	2008-09	2007-08	2007*	2006
Operations:					
Commercial revenues	$ 80,270	$ 71,514	$ 71,422	$ 10,257	$ 67,569
Fuel surcharge	3,570	10,100	1,130	–	–
Charter revenue	–	–	55	285	–
Other income	71	481	578	170	600
	83,911	82,095	73,185	10,712	68,169
Operating expenses	185,385	173,308	143,347	30,783	142,658
Amortization	18,241	17,038	16,061	3,967	18,323
	203,626	190,346	159,408	34,750	160,981
Loss before government funding	119,715	108,251	86,223	24,038	92,812
Government funding					
Operations	106,596	105,401	60,536	21,113	78,849
Amortization of deferred capital assistance	22,346	17,276	16,061	3,967	18,658
Net income (loss)	$ 9,227	$ 14,426	$ (9,626)	$ 1,042	$ 4,695
Assets:					
Total assets	$ 234,019	$ 226,659	$ 201,269	$ 213,246	$ 218,591
Purchases of vessels, facilities and equipment	$ 14,645	$ 19,946	$ 7,383	$ 1,835	$ 4,981
Purchases of intangible assets	$ 223	$ 580	n/a	n/a	n/a

* Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 2009-10.

** n/a - included in purchase of vessels, facilities and equipment.

FINANCIAL OVERVIEW CONT'D

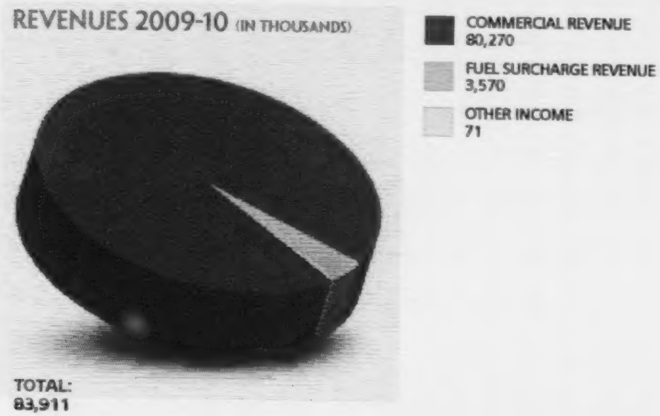
PHOTO COURTESY OF DON MERRITT, NOVA SCOTIA

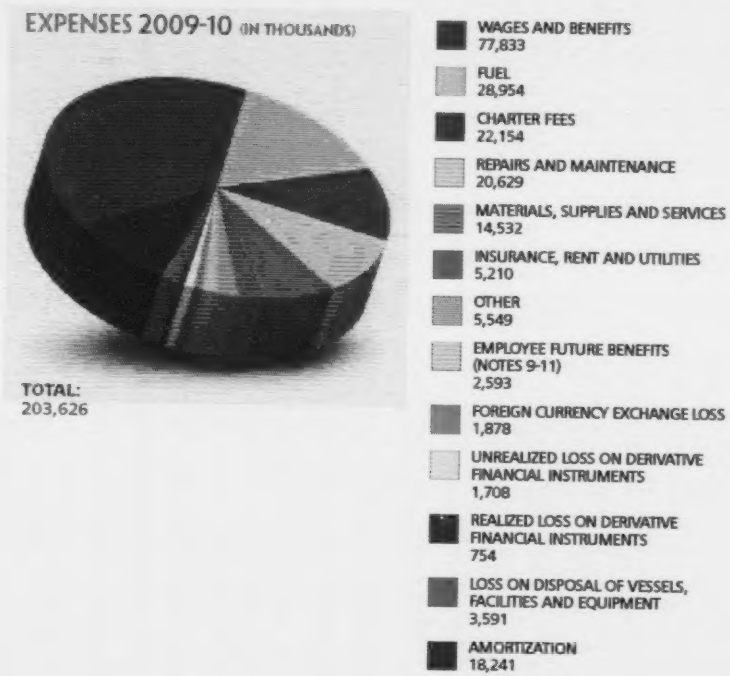
FINANCIAL OVERVIEW

	2009-10	2008-09	2007-08	2007*	2006
Passengers	398,667	385,046	416,823	36,647	405,336
Passenger vehicles	139,011	131,013	141,718	10,203	135,136
Commercial vehicles	96,694	92,612	90,039	18,447	88,066
Number of single crossings	1,972	2,143	2,184	350	2,166
Employees (peak employment)	1,303	1,256	1,223	n/a	1,208
Employees (full-time equivalent)**	1,077	1,058	954	n/a	929

* 2007 was a short three-month year due to the changeover in fiscal year from a January to December calendar basis to an April to March government fiscal year basis. As the 2007 period covers January to March these numbers are not comparable to the other data presented.

** Full-time equivalent (FTE) employees are calculated by dividing actual labour hours worked by the standard hours in a work year (2,080).





FINANCIAL OVERVIEW

WAGES AND BENEFITS

Overall, wages and benefits increased by $5.3 million in 2009/10. Much needed capacity was added this year with the introduction of the *Atlantic Vision* into the schedule. This new fleet configuration resulted in a higher vessel crew level compared to the previous year. In addition, the Management Renewal Program moved forward with the staffing of the Strategy and Customer Service departments. Finally, there were general wage rate increases for bargaining units under contract.

FUEL

The cost of fuel was $7.6 million less than the previous year, as the cost per litre consumed was 33 per cent less. This offset the 24 per cent increase in fuel consumption resulting from the additional capacity required to carry the highest traffic volumes in the Corporation's history.

CHARTER FEES

2009/10 was the first full year of operation for the *Atlantic Vision*. The $12.8 million increase in charter fees represents seven additional months of lease payments compared to fiscal 2008/09.

REPAIRS AND MAINTENANCE

There were several unplanned events in 2009/10 that negatively impacted maintenance spending. In addition, more work than was previously anticipated was required on the vessels during the planned maintenance periods.

MATERIALS, SUPPLIES AND SERVICES

Materials, supplies and services were down 15 per cent compared to the previous year. In fiscal 2008/09 outside consultants were used extensively as the Corporation moved forward with important initiatives such as the implementation of the *Atlantic Vision*, the long-term fleet strategy, corporate reorganization, and departmental reviews.

INSURANCE, RENT AND UTILITIES

Insurance, rent and utilities costs increased by 21 per cent in fiscal 2009/10. The *Atlantic Vision* and *Atlantic Freighter* were both insured for the full fiscal year. The *Atlantic Vision* is a newer, larger more technically advanced vessel in comparison to the others in the fleet, which impacted the premiums paid. The *Atlantic Freighter* was sold in March of 2010.

OTHER

Other expenses have increased by $2.9 million in 2009/10. This is largely the result of a Harmonized Sales Tax assessment issued in March 2010 by Canada Revenue Agency (CRA) relating to the period of 2006-2008. The Corporation paid the assessment for the audit period without prejudice to the appeal. In addition, related to this same assessment, the Corporation has recognized an expense of $1.4 million should the subsequent 2008 to 2010 period be assessed in a similar manner. The Corporation plans to pay this amount for the 2008 to 2010 period then appeal any subsequent assessment by Canada Revenue Agency. The Corporation also incurred higher banking fees to set up the appropriate letters of credit for its pension obligations. Travel costs were lower as there was significant travel associated with the *Atlantic Vision* start up in the previous year.

EMPLOYEE FUTURE BENEFITS

Actuarially calculated amounts for the accrued obligations for Workers' Compensation Boards, health and life benefits for retirees and the pension expense decreased by $8.6 million, $7.9 million of which was due to the change in the Pension estimate. The amortization of net actuarial loss decreased by $7.8 million compared to last year. This accounts for the lower pension expense in 2009/10.

FOREIGN CURRENCY EXCHANGE GAIN (LOSS)

Marine Atlantic incurred a foreign currency loss of $1.9 million on a Euro denominated escrow account established for security as part of the charter agreement between Marine Atlantic and the owners of the *Atlantic Vision*.

UNREALIZED LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

The $1.7 million unrealized loss represents the carrying value of the outstanding energy swaps and forward contracts for future periods.

REALIZED LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

Marine Atlantic incurred $0.8 million actual loss from the settlement of energy swaps and forward exchange contracts this fiscal year.

FINANCIAL OVERVIEW

LOSS ON DISPOSAL OF VESSELS, FACILITIES AND EQUIPMENT

The *Atlantic Freighter* was sold for $3.6 million less than book value.

GOVERNMENT FUNDING

Operations funding was $1.2 million higher this year. Marine Atlantic paid $6.5 million more in pension and employee future benefits and $4.4 million more in payments to suppliers and employees. This was offset by a one time payment of $9.4 million in 2008/09 to establish a Euro denominated Escrow account as part of the charter of the *Atlantic Vision*. The amortization of the deferred capital assistance increased by $5.1 million this year; this is primarily due to the loss on disposal of the *Atlantic Freighter*.

VESSELS, FACILITIES, EQUIPMENT AND INTANGIBLE ASSETS

In 2009/10, Marine Atlantic spent $14.9 million in asset renewal. This work included $5.6 million in various projects on the *Joseph and Clara Smallwood* to improve stability, maneuverability and fire safety. The final completion of the bi-level alternate dock in Port aux Basques cost $2.6 million and $1.6 million was invested in mooring systems to support the safe docking of larger ships at alternate docks. The remaining funds were spent on shore facilities, information system upgrades, security enhancements and equipment replacement.

LOOKING FORWARD

PHOTO COURTESY OF CAROL HICKEY, NOVA SCOTIA

LOOKING FORWARD

At the end of each year, Marine Atlantic takes stock of its successes and learnings to be applied to its service in the year to come. 2010/11 promises to see improvements at Marine Atlantic in the areas of customer service, quality of its offering and operational efficiency. The Corporation has learned from the challenges in recent years and will apply those lessons to gain ground and improve the Corporation as a whole.

OPERATIONS

Since there are no plans to change the fleet configuration for the upcoming peak summer season, Marine Atlantic has two approaches to accommodate traffic volumes – commercial reservations and sailing schedule maximization.

The Corporation implemented a new Commercial Reservations system in March 2010 that is helping the Corporation control and maximize the space allocated on the vessels for commercial cargo. The system also helps manage and control the space requirements in the North Sydney and Port aux Basques terminals, ensuring commercial traffic on the Corporation's grounds is limited to three vessel loads at a time. At the close of the 2009/10 year, the Corporation was still making adjustments to the system.

Sailing schedule maximization is a method of optimizing the sailing schedule for Marine Atlantic's vessels. The system helps schedule the maximum possible sailings, taking into account sailing and port turn-around times, hours of rest for crews, and maintenance days, while adjusting departure and arrival times. This approach will enable Marine Atlantic to include an extra 90 round-trip sailings in the 2010/11 schedule, compared with 2009/10.

QUALITY, RISK AND COMPLIANCE

Marine Atlantic is currently assessing risk and taking steps to upgrade security at ferry terminals and within the Corporation. At year-end, security plans were completed and approved by Transport Canada and security certificates were issued for the terminals at Port aux Basques and North Sydney, along with certificates for the *Caribou, Joseph and Clara Smallwood,* and *Leif Ericson*. The *Atlantic Vision's* security plan and certificates were in place at introduction of service earlier in the year. The Argentia terminal security plan has been submitted to Transport Canada. Since this facility is seasonal, Marine Atlantic will have the required security certificates in place in time for the resumption of the service in summer 2010.

CUSTOMER EXPERIENCE

Marine Atlantic is focused on improving customer service and rebuilding credibility with its public, industry and government stakeholders, particularly during the peak summer travel season.

In 2010/11, Marine Atlantic will start with actions that are attainable and demonstrate the strongest positive results. One of these steps is to improve the current complaint management mechanisms to ensure feedback is received and documented and that investigations into complaints are thorough. These mechanisms will be revamped by the end of the year.

Marine Atlantic is putting measures in place to more clearly measure and monitor customer satisfaction. Through in-depth interviews with employees and focus groups with customers the Corporation will identify the key variables that contribute to customer satisfaction, which will help establish the service attributes to be measured.

The Corporation is also taking steps to improve facilities onboard the vessels. Customers will notice improvements to the *Atlantic Vision* (including additional seating capacity), which are anticipated to be complete by June 2010.

The Corporation is investing in a customer contact system that will enable the Reservations Department to electronically contact customers automatically should there be a change in the customer's scheduled travel plans. This system will be introduced for summer 2010 and will greatly improve the way Marine Atlantic communicates with its customers, employees and external stakeholders. It will also greatly enhance customer service as the Corporation moves to a proactive system of contacting customers in the event of impending weather, mechanical issues or change in sailing times.

INFORMATION TECHNOLOGY

The Corporation is upgrading its technology to support the overall revitalization strategy. Started in 2009, the IT strategic alignment will continue over the next five years with major investment in infrastructure.

Marine Atlantic will install a new Internet satellite system on the *Atlantic Vision*, which will provide continuous Internet and e-mail services and improve technology capabilities to allow for web browsing, e-mail exchange, Wi-Fi, ATM services and more. The project brings the *Atlantic Vision* to the same level as the other passenger ferries and is expected to be completed by May 2010, in time for the 2010/11 summer season.

PHOTO COURTESY OF JIM TUSTIAN, ALBERTA

LOOKING FORWARD

The Corporation expects to make significant upgrades to the staff scheduling system by November, 2010. The upgrades include replacing hardware and software. This represents a significant risk for the Corporation, as the existing system is used to develop a competent crew list that is required on the vessel before the new crew can relieve the working crew. Started in 2009/10, this project addresses regulatory and safety concerns and represents a strong improvement.

HUMAN RESOURCES

Work is currently underway to finalize an integrated human resources plan for July 2010 that will increase organizational capacity and drive positive change.

The plan will continue to strengthen capabilities in talent management, ensuring the team is positioned to carry the Corporation into the future. The plan will address three key strategies during the planning period: attracting and retaining a qualified, skilled and representative workforce; learning, training leaders, and providing career development opportunities to reach future business needs; and strengthening human resource management practices and capacity.

STRATEGY AND CORPORATE AFFAIRS

The Strategy and Corporate Affairs Division will coordinate efforts surrounding the Corporation's Revitalization Strategy. The Division will work with all departments to develop a detailed implementation plan that incorporates a number of projects that all contribute to the Corporation's strategic objectives. Progress will be tracked and monitored by an Executive Steering Committee.

Further work will also be undertaken on developing a set of performance measures for the Corporation. These measures will build upon existing operational and financial metrics to provide a comprehensive picture of the Corporation's performance, and will eventually be utilized to track progress against the Revitalization Strategy.

FINANCE

Effective April 1, 2011 Marine Atlantic will begin changing the way it reports its financial statements. The Corporation will adopt public sector accounting standards and must report under the standards for its March 31, 2012 financial statements, including comparative figures. Management is currently developing and implementing a plan to converge to the public sector accounting standards for implementation by the required date.

The Procurement Review will continue in 2010/11 with the objective of improving performance. Various audits have recommended adjustments to procurement practices, which Marine Atlantic will continue to implement in the year to come. Once the comprehensive review is completed, a recommendation will be presented to the Executive Management team on decisions such as strategic goals and direction. The Corporation has allocated funds within the budget for improvements based on recommendations of the review.

CORPORATE SOCIAL RESPONSIBILITY

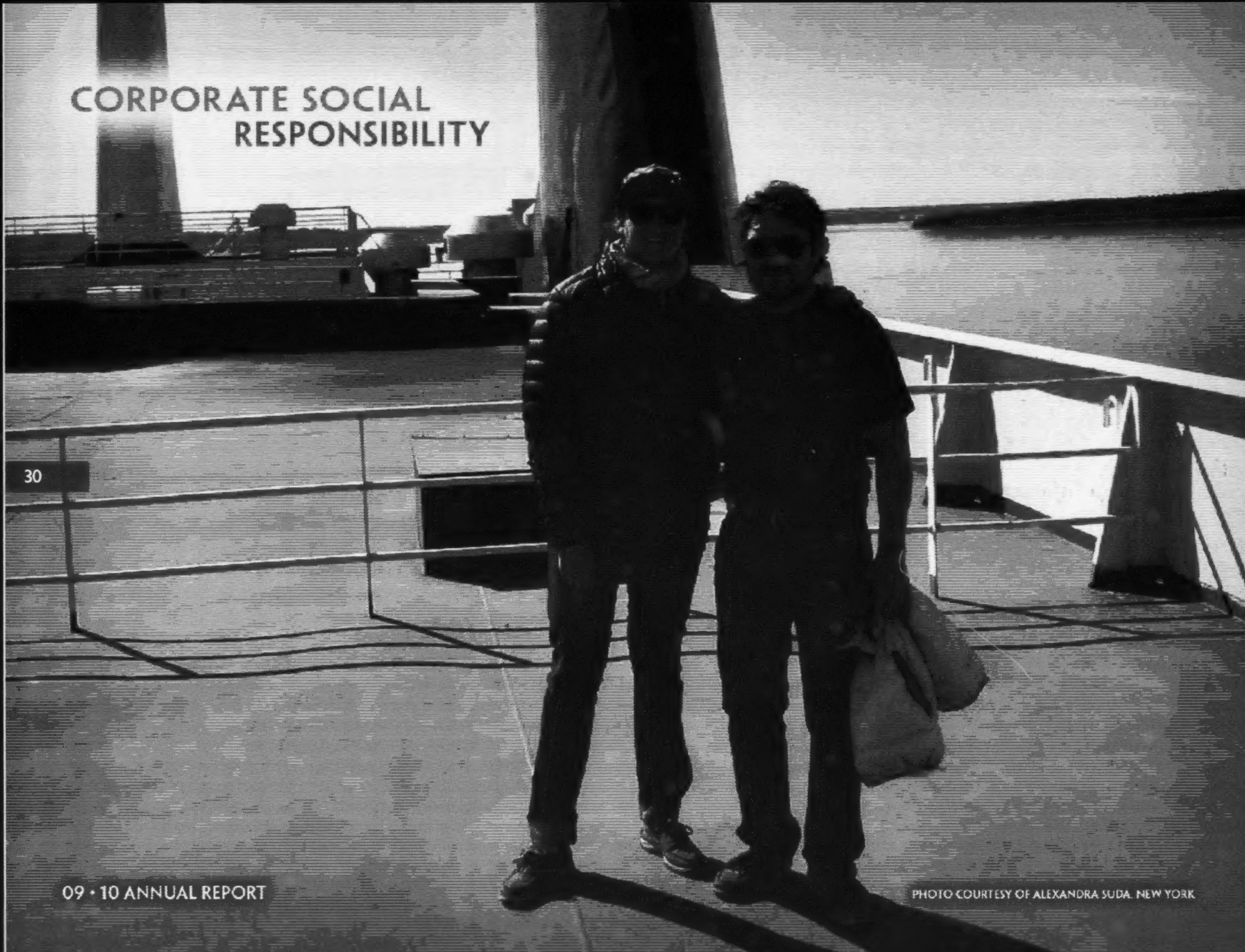


PHOTO COURTESY OF ALEXANDRA SUDA, NEW YORK

CORPORATE SOCIAL RESPONSIBILITY

Marine Atlantic values safety, security, environmental responsibility, exceptional service, reliability, courtesy and cost-effectiveness. The Corporation prides itself on excelling in adhering to the law and ethical standards and operating in a fiscally responsible manner. Marine Atlantic is accountable for the impact its service has on the environment, its employees, and the port towns in which it operates. And, the Corporation proactively promotes community development by investing in the regions in which it operates and volunteering its efforts to support those communities.

ENVIRONMENTAL STEWARDSHIP

Marine Atlantic operates in a beautiful, pristine part of the world and therefore endeavours to minimize its impact on the environment. This helps to ensure the Corporation protects its surroundings and complies with legal requirements.

To that end, Marine Atlantic is developing a comprehensive Environmental Management Plan that addresses the Corporation's practices in relation to fuel management, water management, wastewater management, solid waste management, air emissions, security and the transportation of dangerous goods.

WORKING TO ETHICAL STANDARDS

Marine Atlantic's Executive Management team follows conflict of interest guidelines to ensure the corporate mandate is delivered in an ethical and measurable manner. Employees follow a code of conduct, which provides additional guidelines to ensure adherence to our high standards.

PROMOTING HUMAN RIGHTS

Marine Atlantic is committed to creating and maintaining a workplace free from harassment and discrimination. We value our employees highly, and therefore the Corporation is committed to fostering a work environment in which all individuals are treated with dignity and respect. Employees and partners have the right to work in a professional atmosphere that promotes equal opportunities and prohibits discriminatory practices.

The Corporation's anti-harassment program aims to raise awareness of discrimination, sexual harassment and violence in the workplace. Course material includes Marine Atlantic's policy and procedures on discrimination and harassment. It also provides employees with an overview of their rights and responsibilities with respect to resolving and preventing workplace harassment.

ENSURING EQUAL OPPORTUNITIES

Marine Atlantic is an equal opportunity employer and encourages applicants from groups designated under the *Employment Equity Act*. In the past, the company used customer service experience to screen applicants for entry level positions. To remove this barrier, Marine Atlantic replaced this requirement with a customer service aptitude test.

INVESTING IN YOUTH

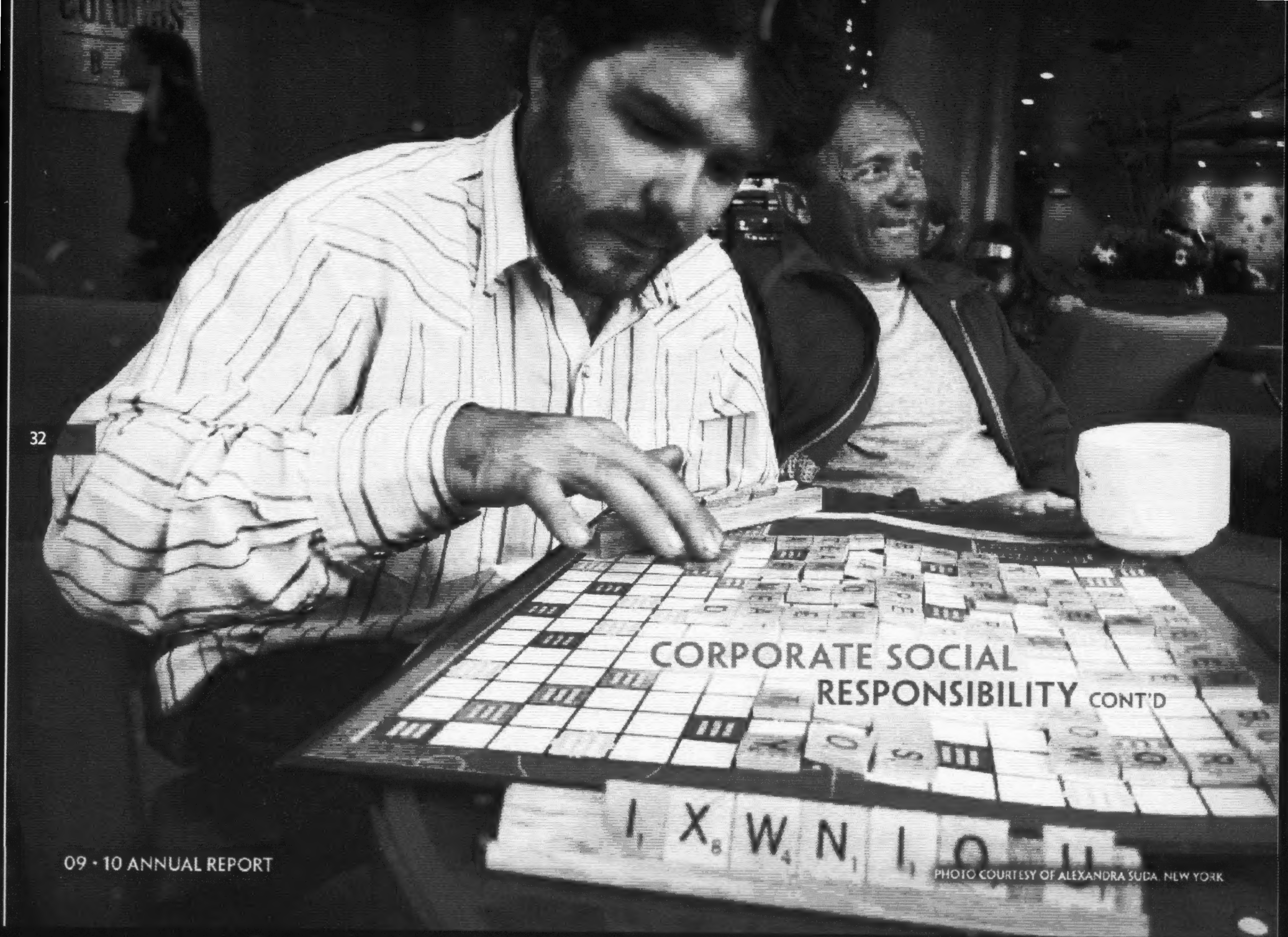
Marine Atlantic's annual scholarship program awards dependent children of employees or pensioners with funds for post-secondary education on a merit basis. The program provides up to four $2,000 university entrance scholarships and four $1,000 trade school entrance scholarships.

Marine Atlantic also provides annually four $1,500 scholarships to students enrolled in either the Nautical Science or Marine Engineering programs at Memorial University's Marine Institute.

Not only is Marine Atlantic committed to building the skills of potential employees, but it is actively recruiting high school graduates and post-secondary students for positions in the Corporation. Marine Atlantic promotes itself and its career opportunities through highly-targeted placements in niche traditional media such as student publications and community papers, combined with a social media presence on Facebook and Google.

GIVING BACK TO THE COMMUNITY

Marine Atlantic employees are actively involved in their communities. With fiscal responsibility in mind, the Corporation supports employees and not-for-profit organizations that benefit the Atlantic region. And, Marine Atlantic invests in the port towns along its routes – on which much of its success depends.



CORPORATE SOCIAL RESPONSIBILITY CONT'D

PHOTO COURTESY OF ALEXANDRA SUDA, NEW YORK

CORPORATE SOCIAL RESPONSIBILITY

ENGAGING BOTH OFFICIAL LANGUAGES

As a federal Crown corporation, Marine Atlantic is committed to providing customers with the option of receiving service in either of Canada's two official languages. As part of that commitment, Marine Atlantic is part of the advisory committee that reports to the Official Languages Centre of Excellence, an agency that is responsible for setting policy on the implementation of the *Official Languages Act*.

Bilingual employees undergo regular testing to ensure they continue to meet proficiency requirements. Any employee who does not meet those requirements receives refresher training. In addition, Marine Atlantic selects employees annually to participate in a two-week French immersion program to help them maintain a high level of proficiency in French.

ENCOURAGING EMPLOYEE WELLNESS

Marine Atlantic's Employee Wellness Committee consists of employees from all areas of the organization who are committed to promoting a healthy lifestyle to their peers. In 2009/10, the committee organized health fairs, flu shot clinics and health programs such as the @live Health Risk Assessment and the Employee & Family Assistance program.

For the second year, the committee ran an employee wellness challenge. Sixteen teams of employees participated in the challenge, which focused on work/life balance and healthy diets. The challenge was a fun and friendly competition, offering a chance to get to know co-workers and compete for prizes.

BOARD AND MANAGEMENT WORKING TOGETHER

PHOTO COURTESY OF JOHN DUFFETT, ONTARIO

THE BOARD AND MANAGEMENT WORKING TOGETHER

Marine Atlantic is governed by a ten person Board of Directors. It is responsible for the general oversight of the Corporation's activities and is required to provide overall policy direction. The independent directors are chosen and appointed for specific and staggered terms by the Government of Canada. The President and CEO is also a member of the Board.

The Board of Directors operates within a highly regulated environment. The *Financial Administration Act* and the *Marine Atlantic Inc. Acquisition Authorization Act* both provide direction to the Corporation's business affairs. The Corporation's Articles of Incorporation, its By-laws and Mission Statement further direct both the Board and management in their decision-making. Finally, the National Marine Policy provides critical direction and restraint as it requires that Marine Atlantic focus its efforts only on operating the Gulf ferry service. Consequently, the Corporation is not entitled to expand into other business opportunities that may arise and complement its other business activities.

The Board must provide prudent fiscal direction and guidance to senior management, ensuring effective budgeting and financial management as well as management of corporate risks. Leadership is provided through policy direction to management. These processes fulfill the Board's commitment to provide overall governance. Management, in turn, directs Marine Atlantic's employees, with the overall united effort to provide a safe, environmentally responsible, quality and efficient interprovincial ferry system for its customers.

COMMITTEES OF THE BOARD

The Board has standing committees to engage and support its efforts in the three primary areas of governance responsibility: Corporate Governance, Audit and Risk, and Human Resources and Pension Management.

CORPORATE GOVERNANCE COMMITTEE

During this year, the Committee developed a Board of Directors' Governance Charter specifically outlining the Board's key areas of stewardship responsibilities. Also, the Committee developed a roles analysis documentation to clarify the respective roles that the Board of Directors and the CEO have in key areas of responsibilities. The Committee developed Board of Director Conflict of Interest Guidelines consistent with the *Conflict of Interest Act (Canada)*. The Guidelines provide direction to the Board of Directors in relation to ethical standards, public scrutiny, decision making and government property.

Finally, the Committee commenced a review and is revising the Corporations' Whistleblower Policy to ensure the Policy is consistent with the provisions of the *Public Servants Disclosure Protection Act (Canada)*.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee oversees the Corporation's standards for integrity and behaviour, financial reporting, internal audit, and risk management. Overall responsibilities include review of management performance, operational and capital budgets, financial statements, internal controls, and risk management activities. A significant role for the committee is to set the context for an effective enterprise risk management (ERM) framework and to gain assurance that management has implemented appropriate systems and practices aligned with the ERM framework. The ERM framework provides reasonable assurance that the strategic, operational, financial and regulatory objectives of the Corporation will be achieved.

The Audit and Risk Committee oversees the design and implementation of internal controls to support the risk management framework.

Within the ERM and control frameworks, the Committee assists the Board in fulfilling its oversight responsibilities regarding safeguarding of assets, compliance with the law, regulations and governing policies, integrity of management and financial information, and the efficiency and effectiveness of operations and independence of the external and internal audit functions.

The Committee includes two Chartered Accountants and two senior executives that have a sound knowledge of risk, operations, management principles, financial reporting and Audit and Risk Committee governance principles such as independence and ethics.

A summary of major initiatives and events during the 2009/10 fiscal year include:

- Creating a Director of Internal Audit position to lead and expand the internal audit function
- Relocating the internal audit function from St. John's to North Sydney (closer to operations)
- Updating the terms of reference of the Audit and Risk Committee and the mandate for the Internal Audit function
- Selecting the Public Sector Accounting Standards as the new financial reporting standard for Marine Atlantic effective April 1, 2011
- Training committee members and senior management on "Effective Audit and Risk Committees" and "Effective Internal Audit Functions"
- Receiving an adverse opinion from the OAG on MAI's special examination, identifying major strategic challenges with the organization's ability to meet its mandate
- Completing several internal audits with our firm of record in three areas: procurement, overtime, and IT security and control management.
- Progressing toward creating and implementing the Corporate Risk Register
- Implementing a fuel price hedging program
- Material HST tax liability created by a Canada Revenue Agency audit of the method used to determine and allocate input tax credits (currently under appeal).

THE BOARD AND MANAGEMENT WORKING TOGETHER

HUMAN RESOURCES AND PENSION MANAGEMENT COMMITTEE (HRPMC)

The Committee's responsibilities include providing assistance in the human resource succession planning process, conducting the annual performance assessment on the duties of the President and CEO, and advising the Board with respect to compensation and benefit issues for all employees.

Human Resources activities:

During 2009/10, the Committee reviewed the succession planning process and the demographics for Marine Atlantic for the next five years.

The Committee made a recommendation to the Board for a new Accountability Agreements / Performance Management Incentive Program that would be extended to additional levels within the Corporation. The extended program would include a vice president level and two levels below.

Members of the Committee received an update on the implementation and changes resulting from the revised organizational structure. It also received updates on the recruitment process for the Vice President of Corporate and Strategic Affairs, Vice President of Customer Experience and the Vice President of Operations positions. All three candidates were appointed in July 2009.

The Committee was kept abreast of contract negotiations and reviewed and adjusted the mandates as required.

The Committee assessed the CEO's performance and made recommendations on that assessment.

Activities related to the Pension Plan:

The Committee stayed informed of regulation changes affecting pension plans in the federal jurisdiction, including the Solvency Funding regulations released in June 2009 and the Modernization of Federal Pension Rules to be implemented in 2010 (retroactive to December 31, 2009).

In June 2009, funds were transitioned for the two additional fund managers to manage broad US Equities. To reduce risk, a transition manager was brought in to oversee the transition to the new managers.

An actuarial report was completed, applying the solvency funding regulations released in June 2009. The Committee recommended that assets would not be smoothed and the Board of Directors accepted that recommendation. The solvency position of the fund as of December 31, 2008 was 83.7 per cent. The deficit on this solvency position is $90.9 million.

Committee members attended a training session on "Pension Plans Around the World: A Fast Changing Environment".

The Committee started a review of the Marine Atlantic Plan compared to other plans, and reviewed expenses charged to the pension plan at each of its meetings.

Committee members attended presentations from three of the pension fund managers.

THE BOARD AND MANAGEMENT WORKING TOGETHER

BOARD RECRUITMENT AND ATTENDANCE

BOARD MEMBERSHIP	COMMITTEE MEMBERSHIP	ATTENDANCE (4 REGULARLY SCHEDULED MEETINGS PER PERIOD)
Robert Crosbie[1]	Board Chairman, Corporate Governance	4
Wayne Follett	Ex-officio member of Corporate Governance and HRPMC	4
Nick Careen[2]	Corporate Governance, Audit and Risk	4
Peggy A. Coady, FCA[3]	Chair, Corporate Governance, Audit and Risk	4
Stan Cook	HRPMC	4
James G. Doody, CA[4]	Chair, Audit and Risk	4
John J. Henley	Corporate Governance	2
Walter Pelley	HRPMC, Audit and Risk	4
Dwight Rudderham	Corporate Governance	4
Heather Tulk	Chair, HRPMC	4
Wayne G. Wheeler[5]	HRPMC, Audit and Risk	1

There are three Committees of the Board of Directors. These are: Audit and Risk Committee, Human Resources and Pension Management Committee (HRPMC), and Corporate Governance Committee.

[1] Chair, Corporate Governance Committee to December 31, 2009
[2] Appointed to Audit and Risk on September 21, 2009
[3] Chair, Audit and Risk to December 31, 2009
[4] Member of Audit and Risk Committee to December 31, 2009. Appointed Chair of Audit and Risk Committee January 1, 2010
[5] Dr. Wheeler passed away on August 17, 2009.

Note: Board conference calls and special meetings were held throughout the period outside the regular schedule. Committee meetings were held throughout the period.

TRIBUTE TO DR. WAYNE WHEELER, BOARD MEMBER

Dr. Wayne Wheeler was a man of ambition, commitment, selflessness, humility and many other positive characteristics that are associated with great men.

Wayne served the Board of Directors for Marine Atlantic with distinction and his passing leaves a significant mark on the organization. His knowledge and expertise in the areas of accounting, finance, and information technology was a substantial benefit to his colleagues and to the Corporation. In particular, Wayne had a passion for IT, writing his own software, and he had a keen eye for details. He did not believe in a lackadaisical approach to work or mediocre performance, he believed in hard work and attention to detail and transmitted these attributes to the Board. Wayne's energy level and ability to get things done in a timely manner can hardly be matched. He always found time to do everything and no project was too big for him to handle.

During Wayne's tenure on the Board, he gave generously of his time and served on various committees which include: the Audit and Risk, Human Resources and Pension Management Committees. He always sought to look around the corner, and whenever presented with any proposal, it was natural for him to review and present alternative options. Wayne had a passion for Marine Atlantic and as a testament to his passion and dedication he was re-appointed to the Board for a further period of four years.

Wayne loved people and would do just about anything to help his colleagues or the people around him. His legacy will fuel our deliberations to achieve the mandate of Marine Atlantic, because we know his devoted and loyal contributions at the Board was for the long-term benefit and the future of Marine Atlantic's customers, stakeholders, and employees.

BOARD OF DIRECTORS

PHOTO COURTESY OF STEVE BENOIT OF STUDIONUMBERNINE.COM, MASSACHUSETTS

BOARD OF DIRECTORS

ROBERT CROSBIE

Chair, Marine Atlantic Inc.
Corporate Governance
Calgary, AB

Chair, Crosbie Group, President of ASCO Canada, Crosbow Enterprises, Crosbie Salamis Limited and Crosbie Realty

WAYNE FOLLETT

President and CEO
Conception Bay South, NL

Marine Atlantic Inc.

HEATHER TULK

Chair, HRPMC
Halifax, NS

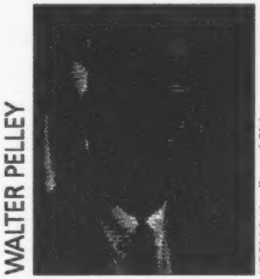
Senior Vice-President
Residential Products
Bell Canada

PEGGY A. COADY, FCA

Chair, Corporate Governance
Audit and Risk
St. John's, NL

Director of Graduate Programs (Business), Assistant Professor (Accounting & Auditing), Faculty of Business Administration
Memorial University of Newfoundland

WALTER PELLEY



HRPMC, Audit and Risk
North Sydney, NS

Owner and President,
W.P. Investments Inc. /
W. and B. Pelley Holdings Inc.

NICK CAREEN

Corporate Governance, Audit and Risk
Jerseyside, NL

Former Member of the House of Assembly,
Province of Newfoundland and Labrador

JOHN J. HENLEY

Corporate Governance
St. John's, NL

Vice-President,
Offshore Services and Development,
G.J. Cahill and Company Limited

DWIGHT RUDDERHAM

Corporate Governance
Sydney, NS

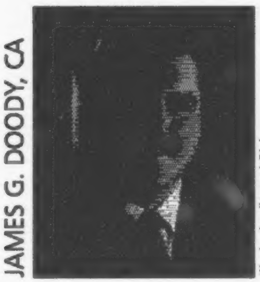
Partner,
Rudderham Chernin Law Office

STAN COOK

HRPMC
St. John's, NL

Vice-President of Operations, Stan Cook Sea Kayaking Adventures, Cook's Coastal Walks and Wilderness Newfoundland Adventures

JAMES G. DOODY, CA



Chair, Audit and Risk
St. John's, NL

Chief Executive Officer,
King Group of Companies

MANAGEMENT RESPONSIBILITES FOR FINANCIAL REPORTING

The preparation and presentation of the financial statements is the responsibility of Marine Atlantic Inc.'s management. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year. These principles have been applied using management's best estimates and judgements that are considered appropriate to the Corporation's circumstances. Management also relies on actuarial reports to record the activities of the pension plan and accrued obligations for workers' compensation and other non-pension employee future benefits.

Management is responsible for the reliability and integrity of the financial statements, including the notes to the financial statements and other financial information contained in the annual report. Management is also responsible for maintaining books of account, information systems, systems of financial and management control, and an internal audit program. These managerial controls and procedures are intended to provide reasonable assurance that accurate financial information is available; that assets are safeguarded and controlled; that resources are managed efficiently; and that transactions are conducted in accordance with relevant legislation and the articles of incorporation and by-laws of the Corporation and its wholly-owned subsidiary.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, on behalf of the Board, fulfills this responsibility. The Audit Committee reviews matters related to accounting, auditing, internal control systems, and the financial statements. The Corporation has an internal auditor whose functions include reviewing internal controls and their application on an ongoing basis.

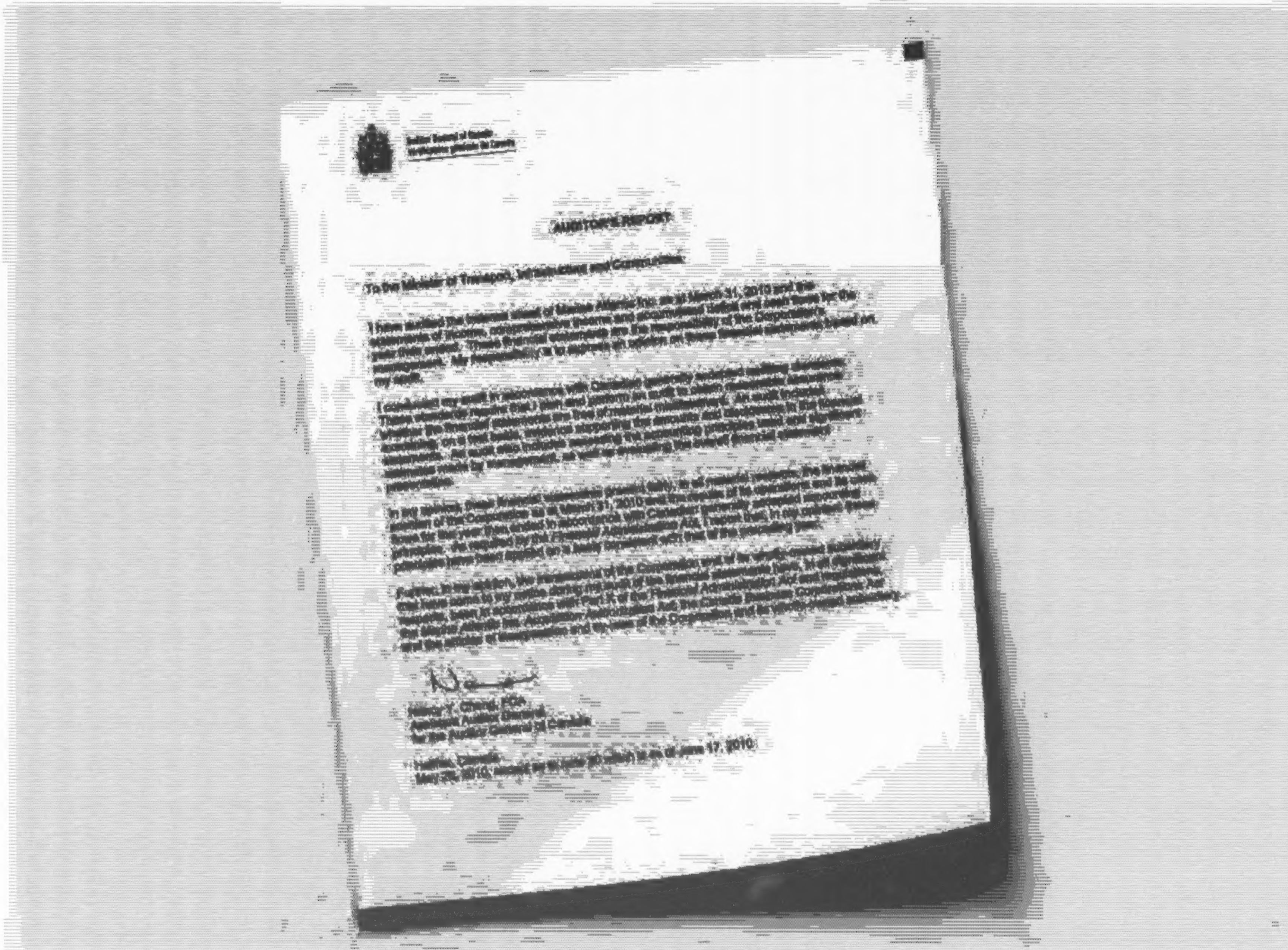
The Auditor General of Canada, the independent auditor of the Corporation appointed under the *Financial Administration Act*, has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards. The independent auditor has full and unrestricted access to the Audit Committee to discuss her audit and related findings.

The financial statements and the annual report have been approved by the Board of Directors.

Shawn Leamon, CGA
Vice President of Finance

Wayne Follett, CGA
President and CEO

St. John's, Canada
June 17, 2010



BALANCE SHEET As at March 31 *(in thousands)*

	2010	2009
Assets		
Current assets		
Cash	$ 2,517	$ 488
Accounts receivable (note 15(a))	9,505	10,361
Receivable from Government of Canada (note 4)	–	795
Inventories (note 5)	14,123	15,369
Derivative financial instruments (note 14)	146	–
Prepaid expenses	480	516
	26,771	27,529
Restricted cash (note 6)	8,537	10,396
Vessels, facilities and equipment (note 7)	128,890	136,123
Intangible assets (note 8)	1,157	1,402
Accrued pension asset (note 9)	68,654	51,209
Derivative financial instruments (note 14)	10	–
	198,711	188,734
Total assets	**$ 234,019**	**$ 226,659**
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 18,830	$ 18,097
Derivative financial instruments (note 14)	1,863	–
Deferred revenue	3,841	2,599
Payable to Government of Canada (note 4)	1,234	–
Accrued vacation pay	5,617	5,492
Current portion of long-term accrued obligations (notes 10 and 11)	2,405	1,792
	33,790	27,980
Accrued pension liability (note 9)	1,264	1,276
Accrued obligation for other non-pension employee future benefits (note 10)	22,822	22,226
Accrued obligation for workers' compensation (note 11)	7,144	7,929
Derivative financial instruments (note 14)	2	–
	31,232	31,431
Deferred capital funding	130,047	137,525
Shareholder's equity		
Share capital (note 13)	258,530	258,530
Accumulated deficit	(219,580)	(228,807)
	38,950	29,723
Total liabilities and shareholder's equity	**$ 234,019**	**$ 226,659**
Commitments and guarantees (note 17)		
Contingencies (note 18)		
Subsequent event (note 20)		

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors: ________ Director ________ Director

STATEMENT OF INCOME, COMPREHENSIVE INCOME AND ACCUMULATED DEFICIT

For the year ended March 31 *(in thousands)*

	2010	2009
Revenue		
Commercial revenue	$ 80,270	$ 71,514
Fuel surcharge revenue	3,570	10,100
Other income	71	481
	83,911	82,095
Operating expenses		
Wages and benefits	77,833	72,491
Fuel	28,954	36,594
Charter fees	22,154	9,367
Repairs and maintenance	20,629	20,202
Materials, supplies and services	14,532	17,166
Insurance, rent and utilities	5,210	4,312
Other	5,549	2,645
Employee future benefits (notes 9, 10 and 11)	2,593	11,186
Foreign currency exchange loss (gain)	1,878	(893)
Unrealized loss on derivative financial instruments (note 14)	1,708	–
Realized loss on derivative financial instruments (note 14)	754	–
Loss on disposal of vessels, facilities and equipment	3,591	238
Amortization	18,241	17,038
	203,626	190,346
Loss before government funding	(119,715)	(108,251)
Government funding		
Operations	106,596	105,401
Amortization of deferred capital funding	22,346	17,276
Net income and comprehensive income	9,227	14,426
Accumulated deficit, beginning of year	(228,807)	(243,233)
Accumulated deficit, end of year	$ (219,580)	$ (228,807)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS For the year ended March 31 *(in thousands)*

	2010	2009
Cash flows from (used for)		
Operating activities		
Cash receipts from customers	$ 83,431	$ 83,480
Other income received	52	224
Government operating funding	108,625	96,950
Cash paid to suppliers and employees	(170,967)	(166,539)
Restricted cash held in trust	–	(9,404)
Cash paid for pension, workers' compensation and other non-pension employee future benefits	(19,626)	(13,162)
	1,515	(8,451)
Investing activities		
Purchase of vessels, facilities and equipment	(14,645)	(19,946)
Purchase of intangible assets	(223)	(580)
Proceeds on disposal of vessels, facilities and equipment	514	–
	(14,354)	(20,526)
Financing activities		
Government capital funding	14,868	20,526
Net increase (decrease) in cash	2,029	(8,451)
Cash, beginning of year	488	8,939
Cash, end of year	$ 2,517	$ 488

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS AND AUTHORITY

Marine Atlantic Inc. is incorporated under the *Canada Business Corporations Act*. The *Marine Atlantic Inc. Acquisition Authorization Act* of 1986 established the Corporation as a parent Crown corporation. In accordance with the Act, the Corporation's articles restrict its business to the acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto. As a result of the *National Marine Policy (1995)*, the mandate was narrowed to the operation of the ferry system. The corporate mission is "to provide a safe, environmentally responsible and quality ferry service between the Island of Newfoundland and the Province of Nova Scotia in a reliable, courteous and cost-effective manner." Marine Atlantic Inc. is a federal Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. The Corporation is not an agent of Her Majesty. Marine Atlantic Inc.'s wholly-owned subsidiary, the Newfoundland Dockyard Corporation, has ceased operations.

The Corporation operates a ferry service between Nova Scotia and Newfoundland and Labrador. This service encompasses the year-round ferry service between North Sydney, Nova Scotia and Port aux Basques, Newfoundland and Labrador (constitutional route) and the seasonal summer service between North Sydney, Nova Scotia and Argentia, Newfoundland and Labrador (non-constitutional route).

The Corporation's activities are also governed by agreements negotiated with the Government of Canada. The agreements provide, among other things, for the Corporation to receive annual parliamentary appropriations for operations from the Government of Canada to the extent that the cost of providing ferry services is not recovered from commercial revenues. The agreements require Marine Atlantic Inc. to charge for ferry services at fares and rates approved by the Minister of Transport, Infrastructure and Communities. In setting these fares and rates, the Government of Canada approved a tariff policy that links annual increases for the constitutional route to the Consumer Price Index. The Board of Directors is responsible for setting tariffs on the non-constitutional route and all service charges on both routes. A fuel surcharge, intended to recoup 100% of any increase in vessel fuel expenses over and above the amount incurred in the base year measured from April 1, 2006 to March 31, 2007, has been added to all tariffs. The Minister reserves the right to amend at any time fares, rates and surcharges already approved by the Corporation. The acquisition of vessels, facilities and equipment and the funding requirement for restructuring costs are also governed by agreements, subject to approval of parliamentary appropriations.

The Corporation is economically dependent on the Government of Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(A) FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Financial instruments are classified as held for trading when they are principally acquired or incurred for the purpose of selling and repurchasing in the short-term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit taking or derivatives not designated for hedge accounting. Other financial instruments may be designated as held for trading upon initial recognition.

The Corporation has classified its cash and restricted cash as held for trading since they could be reliably measured at fair value due to their short-term maturity.

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in income. Transaction costs are expensed as incurred. Regular-way purchases or sales of financial assets are accounted for at settlement date.

LOANS AND RECEIVABLES

The loans and receivables classification includes accounts receivable and a receivable from the Government of Canada that have fixed or determinable payments and are not quoted in an active market. Assets are measured initially at fair value and then at amortized cost. Accounts receivable are carried at the original invoice amount less allowance for doubtful accounts. The carrying values of these financial instruments approximate fair values due to their short-term nature.

OTHER FINANCIAL LIABILITIES

Other financial liabilities represent liabilities that are not classified as held for trading. They are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost. The Corporation has classified its accounts payable and accrued liabilities and payable to the Government of Canada as other financial liabilities. As the time value of money is not material due to their short-term nature, accounts payable and accrued liabilities are carried at the original invoice amount and the payable to the Government of Canada is carried at the original amount.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses derivative financial instruments such as swaps in the management of its exposure to changes in fuel prices covering at least 15 per cent and up to 65 per cent of its budgeted fuel consumption.

Forward foreign exchange contracts are also utilized by the Corporation in the management of its exposure to the changes in value of the Euro related to the lease payments for the charter of the passenger and freight vessel, the MV *Atlantic Vision*.

These derivatives are accounted for at fair value on the balance sheet and are removed from the balance sheet when they expire or are terminated, with changes in fair value recognized in the statement of income, comprehensive income and accumulated deficit as foreign currency exchange gains or losses.

The Corporation does not enter into derivative financial instruments for trading or speculative purposes and it does not apply hedge accounting to these derivatives.

The Corporation's derivative financial instruments are classified as held for trading.

(B) PARLIAMENTARY APPROPRIATIONS AND DEFERRED CAPITAL FUNDING

Parliamentary appropriations to fund the current cash requirements, related to operating expenses in excess of commercial revenues, are included in income for the period.
Any difference between amounts provided and amounts required represents a receivable from (payable to) the Government of Canada. Amounts related to vessels, facilities and equipment and intangible assets additions are recorded as deferred capital funding in the year in which the related vessels, facilities and equipment and intangible assets are acquired, and are amortized to income on the same basis and over the same periods as the related vessels, facilities and equipment and intangible assets are amortized or written off.

(C) INVENTORY

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted-average basis.

(D) VESSELS, FACILITIES AND EQUIPMENT

Vessels, facilities and equipment are carried at cost less accumulated amortization. Major spare parts that are included in the Corporation's vessel spare parts inventory are accounted for as vessels, facilities and equipment. For this purpose, major spare parts are those that are expected to be used for more than one fiscal period in connection with an item of vessels, facilities and equipment. The cost of work in progress includes materials and direct labour. Amounts included in work in progress are transferred to the appropriate vessels, facilities and equipment classification when available and ready for use and are then amortized. Amortization is calculated at rates sufficient to write off vessels, facilities and equipment over their estimated useful lives on a straight-line basis. Projects onboard vessels are amortized over the lesser of the useful life of the asset or the useful life of the vessel. Estimated useful lives and amortization methods are reviewed at the end of each year.

The rates for significant classes of vessels, facilities and equipment are as follows:

	Rate
Vessels	5%
Terminal facilities	2.5%
Equipment (includes vessel projects)	10%, 12.5% and 25%

The Corporation recognizes a gain or loss on the disposal of assets. Net proceeds are applied against the operating funding requirements in the period of disposition.

(E) INTANGIBLE ASSETS

The Corporation's intangible assets are comprised of purchased software. Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated on a straight-line basis over the estimated useful lives of the intangible assets.

The useful lives used in the calculation of amortization for purchased software is four years resulting in a 25% amortization rate.

(F) EMPLOYEE FUTURE BENEFITS

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, as the benefits accrue to employees. The Corporation has adopted the following policies:

- The Corporation maintains, through a trustee, a registered defined benefit pension plan covering substantially all of its employees, an unfunded supplementary retirement arrangement for senior managers hired prior to March 1, 2001, and an unfunded

supplementary retirement arrangement adopted in 2006 for designated positions providing benefits for service since 2004. Eligibility under the latter supplementary arrangement is being extended to benefits accrued for service since 2009 for all members of the registered defined benefit pension plan who are affected by the maximum pension payable by the registered plan. Benefits generally are based on employees' length of service and final or best average earnings for all benefits.

The cost of pensions is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, inflation and retirement ages of employees. The discount rate used to calculate the interest cost on the pension obligations is based on yields on high quality corporate bonds at the measurement date. The expected long-term rate of return on plan assets is based on estimated returns, consistent with market conditions applicable on the measurement date, for each major asset class and the target asset mix specified in the plan's investment policy. The expected return on plan assets is based on a market-related value of plan assets, determined using a method which amortizes gains or losses relative to the expected return over five years. Actuarial gains or losses arise from the difference between the actual rate of return and the expected long-term rate of return on plan assets and from changes in the pension obligations due to changes in actuarial assumptions used or actual demographic experience. All actuarial gains and losses and past service costs resulting from plan amendments are amortized over the estimated average remaining service period of active registered plan members; the estimated average life expectancy of members of the former supplementary retirement arrangements; and the average remaining service period of active members for the supplementary retirement arrangement adopted in 2006. The estimated average remaining service period of the active members covered by the registered pension plan is 10.8 years (2009 - 11.1 years). The estimated average life expectancy for members covered by the former supplementary retirement arrangement is 18.7 years (2009 – 19.2 years). For the supplementary retirement arrangement adopted in 2006, the average remaining service period of active members expected to receive benefits under the plan is 5.9 years (2009 - 6.0 years).

- For certain employees and former employees, the Corporation is a self-insured employer and is accountable for workers' compensation liabilities incurred. The cost of workers' compensation liabilities are actuarially determined using the net present value of liabilities for work-related injuries of current and former employees when awards are approved by the Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador; Workplace Health, Safety and Compensation Commission of New Brunswick; or Workers' Compensation Commission of Prince Edward Island; or legislative amendments are made and the anticipated future costs can be reasonably calculated.

  Management recognizes changes in the net present value of the liability, based on updated actuarial estimates of future costs as a result of actual experience and changes in actuarial assumptions. Adjustments arising from actuarial gains and losses are amortized over the average expected period over which benefits will be paid.

- The cost of other non-pension employee future benefits is actuarially determined using management's best estimates of future participation rate in the retiree medical plan, average health care cost per covered individual, health care trend rates and utilization, salary escalation and mortality rates. Adjustments arising from actuarial gains and losses are amortized over the estimated average remaining service period. The estimated average remaining service period of active members covered by non-pension employee future benefit plans expected to receive benefits is 12.5 years (2009 - 11 years). Adjustments due to plan amendments are amortized over the estimated average remaining service period to the participant's date of full eligibility to benefits.

(G) REVENUE RECOGNITION

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. Commercial, fuel surcharge and charter revenues are recorded when ferry services are provided. The Corporation requires customers to pay in advance when booking a reservation. These amounts received are recorded as deferred revenue and are recognized as revenue when ferry services are provided.

Interest income is recorded on a time proportion basis.

(H) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction. Commitments and contingencies denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. All exchange gains and losses are included in the determination of net income for the period.

(I) FAIR VALUES

The fair values of the accrued obligation for workers' compensation benefits, the accrued obligation for other non-pension employee future benefits and the accrued pension asset and liability are determined using actuarial valuations and on the fair value of pension plan assets

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

based on the market value of assets reported in the trustee's financial statements, with certain adjustments.

The fair value of restricted cash which is held in a Euro-denominated escrow account is determined using the Bank of Canada exchange rate at March 31.

(J) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

(K) MANAGEMENT ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. The Corporation's critical accounting estimates include the following: accrued pension asset, accrued obligations for workers' compensation benefits and other non-pension employee future benefits and litigation. Actual results could differ materially from those estimates.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

(A) GOODWILL AND INTANGIBLE ASSETS

Effective April 1, 2009, the Corporation adopted Canadian Institute of Chartered Accountants (CICA) Handbook section 3064, *Goodwill and Intangible Assets*, which replaces section 3062, *Goodwill and Other Intangible Assets* and section 3450, *Research and Development Costs*. The new section establishes revised standards for the recognition, measurement, presentation, and disclosure of goodwill and intangible assets.

The adoption of this standard resulted in the Corporation reclassifying computer software previously recorded within vessels, facilities and equipment to intangible assets. This change in accounting policy has been applied retrospectively and comparative information in the balance sheet, statement of cash flows and notes to the financial statements for the year ended March 31, 2009 has been reclassified accordingly. The change in accounting policy had no impact on the comparative information contained in the statement of income, comprehensive income and accumulated deficit.

For the year ended March 31, 2009, the balance sheet changed as follows:

	2009 - As presented	2009 - Reclassified
Vessels, facilities and equipment	$ 137,525	$ 136,123
Intangible assets	$ –	$ 1,402

For the year ended March 31, 2009, the statement of cash flows changed as follows:

	2009 - As presented	2009 - Reclassified
Purchase of vessels, facilities and equipment	$ 20,526	$ 19,946
Purchase of intangible assets	$ –	$ 580

(B) DISCLOSURE OF FINANCIAL INSTRUMENTS

Effective March 31, 2010, the Corporation adopted amendments to the Canadian Institute of Chartered Accountants (CICA) Handbook section 3862, *Financial Instruments – Disclosures*, by providing additional disclosures about the fair value measurement of financial instruments and enhanced liquidity risk disclosures. The amendments establish a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring fair value.

The hierarchy prioritizes the inputs used in making the fair value measurements.
The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted market prices for the same financial instrument in an active market.

Level 2 - valuation techniques based on quoted prices for similar instruments in markets which are non-active, inputs other than quoted prices that are observable and derived from or corroborated by observable market data.

Level 3 - valuation techniques based on significant unobservable market inputs.

(C) FUTURE ACCOUNTING CHANGES

In December 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the *Introduction to Public Sector Accounting Standards* that eliminates the category of government business-type organizations resulting in the need to reclassify these entities as either government not-for-profit organizations or other government organizations.

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

The Corporation was previously classified as a government business-type organization. Management has reassessed the Corporation's classification and concluded that it should be classified as an other government organization and that the standards in the Public Sector Accounting Handbook will meet the needs of its users.

Effective April 1, 2011, the Corporation will adopt public sector accounting standards and must report under the new standards for its March 31, 2012 financial statements, including comparative figures. Management is currently developing and implementing a plan to converge to the public sector accounting standards for implementation by April 1, 2011.

4. (PAYABLE TO) RECEIVABLE FROM GOVERNMENT OF CANADA

Appropriations received from the Government of Canada were used as follows:

		2010		2009
Receivable from (payable to) Government of Canada, beginning of year	$	795	$	(7,656)
Parliamentary appropriations received during the year		(123,493)		(117,476)
Recognized during the year:				
Operations		106,596		105,401
Vessels, facilities and equipment and intangibles		14,868		20,526
(Payable to) receivable from Government of Canada, end of year	**$**	**(1,234)**	**$**	**795**

5. INVENTORIES

		2010		2009
Fuel inventory	$	8,311	$	9,561
Vessel spare parts - ship based		3,073		3,003
Vessel spare parts - shore based		2,231		2,268
Catering inventory		508		537
Total inventories	**$**	**14,123**	**$**	**15,369**

For the year ended March 31, 2010, inventories valued at $34,631 (2009 - $41,879) were recognized in expenses. Inventories valued at $359 (2009 - $836) were written down.

6. RESTRICTED CASH

Restricted cash consists of cash denominated in Euros plus accumulated interest held in an escrow account with a German bank as security for the charter of the passenger and freight ferry – the MV *Atlantic Vision*. The charter agreement signed in April 2008 required the establishment of an escrow account equivalent to six months of charter fees (6,201 Euros – 8,537 CAD at March 31, 2010; 10,361 CAD - 2009) until the end of the charter in 2013. These monies are to be released to the ferry's owners if there is a breach of the charter agreement by the Corporation.

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

7. VESSELS, FACILITIES AND EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vessels	$ 381,211	$ 321,705	$ 59,506	$ 394,383	$ 319,044	$ 75,339
Terminals	88,059	44,066	43,993	86,114	41,807	44,307
Equipment	10,089	7,013	3,076	9,550	6,709	2,841
Work in progress	22,315	–	22,315	13,636	–	13,636
	$ 501,674	**$ 372,784**	**$ 128,890**	**$ 503,683**	**$ 367,560**	**$ 136,123**

The amortization expense related to vessels, facilities and equipment for the year ended March 31, 2010 was $17,773 (2009 - $16,632).

8. INTANGIBLE ASSETS

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
IT software	$ 2,769	$ 1,984	$ 785	$ 2,830	$ 1,698	$ 1,132
Work in progress	372	–	372	270	–	270
	$ 3,141	**$ 1,984**	**$ 1,157**	**$ 3,100**	**$ 1,698**	**$ 1,402**

On April 1, 2009, the Corporation adopted the CICA Handbook section 3064, *Goodwill and Intangible Assets*. As a result, computer software, which includes externally acquired software, was reclassified from vessels, facilities and equipment to intangible assets (note 3(a)). The Corporation had no internally developed intangible assets as at March 31, 2010 (2009 - nil). During the year ended March 31, 2010, the Corporation wrote-off $181 (2009 - $228) of intangible assets that were fully amortized.

The aggregate amount of intangible assets subject to amortization that were acquired during the year was $223 (2009 - $580). Amortization expense related to intangible assets for the year ended March 31, 2010 was $468 (2009 - $406).

9. PENSION PLANS

The Corporation's independent actuaries measure the pension obligations and the fair value of the plans' assets for accounting purposes as at the measurement date (December 31, 2009 for March 31, 2010 and December 31, 2008 for March 31, 2009). The most recent actuarial valuation for funding purposes is as of December 31, 2008. The next required actuarial valuation for funding purposes, expected to be completed in 2010, will be as of December 31, 2009.

The registered pension plan provides for possible indexation adjustments for pension and survivor benefits payable during a calendar year following the third anniversary of the member's retirement or death, whichever occurs first. The indexation adjustment is calculated as the annual increase in the Consumer Price Index less three per cent, subject to a maximum annual increase of three per cent. No indexation adjustment is provided if the annual increase in the Consumer Price Index is below three per cent.

NOTES TO THE FINANCIAL STATEMENTS March 31 *(in thousands)*

The following presents the financial position of the Corporation's pension arrangements:

	2010		2009	
	Registered Pension Plan	Supplementary Retirement Arrangements	Registered Pension Plan	Supplementary Retirement Arrangements
Pension plan assets (fair value)	$ 513,386	$ –	$ 464,044	$ –
Pension obligations (actuarial value)	481,319	1,617	421,778	1,481
Surplus (deficit)	$ 32,067	$ (1,617)	$ 42,266	$ (1,481)
Surplus (deficit) end of year	$ 32,067	$ (1,617)	$ 42,266	$ (1,481)
Unamortized amounts	32,251	316	6,290	169
Employer contributions during year from measurement date to March 31	4,336	37	2,653	36
Accrued pension asset (liability)	$ 68,654	$ (1,264)	$ 51,209	$ (1,276)
Pension contributions - employer	$ 17,583	$ 149	$ 10,767	$ 138
Pension contributions - employees	$ 3,500	$ –	$ 3,045	$ –
Pension costs	$ 138	$ 137	$ 8,051	$ 143
Benefits paid	$ 30,959	$ 148	$ 30,185	$ 135
Determination of pension costs for the year are calculated as:				
Current service cost	$ 3,709	$ 7	$ 5,972	$ 20
Interest on pension obligations	30,289	107	27,570	92
Return on plan assets	(32,677)	–	(32,139)	–
Amortization of past-service costs	2,367	9	2,367	9
Amortization of net actuarial loss	(3,550)	14	4,281	22
Pension costs	**$ 138**	**$ 137**	**$ 8,051**	**$ 143**

Employer pension contributions are made in accordance with the actuarial valuations for funding purposes. The Corporation notified the Office of the Superintendent of Financial Institutions that beginning in 2008, the Corporation applied Part 3 of the *Solvency Funding Relief Regulations* which permits the solvency deficit to be amortized over 10 years with letters of credit issued by a financial institution in the amount determined in accordance with the Regulations. The Corporation also notified the Office of the Superintendent of Financial Institutions that the Corporation would be using 10-year funding for the 2009 plan year under the *Solvency Funding Relief Regulations, 2009* and that Part 3 of these Regulations would be used in 2010, allowing the continuation of 10-year funding for the solvency deficiency which emerged in 2008, with a letter of credit issued by a financial institution in the amount determined in accordance with the Regulations.

The registered pension plan assets are invested in debt securities and equity securities. The asset mix at December 31, 2009, the measurement date for the March 31, 2010 financial statements was 57% in debt securities and 43% in equity securities (2009 - 68% and 32%, respectively).

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

Weighted-average assumptions

	2010	2009
Pension obligations		
Discount rate	6.4%	7.4%
Rate of compensation increase	4.0%	3.0% + merit scale
Pension costs		
Discount rate	7.4%	5.5%
Expected long-term rate of return on plan assets	6.25%	6.25%
Rate of compensation increase	3.0% + merit scale	3.0% + merit scale

10. ACCRUED OBLIGATION FOR OTHER NON-PENSION EMPLOYEE FUTURE BENEFITS

The Corporation provides life insurance and health care benefits to retirees. The present value of this unfunded benefit plan for current and future retirees is determined by an actuary on the basis of management assumptions. An actuarial valuation was conducted as of January 1, 2008 extrapolated to the measurement date of December 31, 2009 (2009 - December 31, 2008).

The statement of income, comprehensive income and accumulated deficit includes a charge of $1,050 (2009 - $1,612) for other non-pension employee future benefits for the cost of these benefits in the period and changes in management's estimates.

At March 31, the Corporation's accrued obligation for other non-pension future benefits costs and obligations consists of:

		2010		2009
Other non-pension employee future benefits costs	$	23,263	$	22,632
Less: current portion		441		406
Non-current portion	$	22,822	$	22,226
Other non-pension employee future benefits costs	$	1,050	$	1,612
Other non-pension employee future benefits payments	$	419	$	478
Determination of other non-pension employee future benefits costs for the year are calculated as:				
Current service cost	$	392	$	593
Interest cost		1,199		1,128
Amortization of net actuarial (gain) loss		(422)		10
Plan amendments		(119)		(119)
Other non-pension employee future benefits costs	$	1,050	$	1,612

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

Weighted-average assumptions

	2010	2009
Other non-pension employee future benefits obligations		
Discount rate	6.4%	7.4%
Rate of compensation increase	4.0%	3.0% + merit scale
Initial weighted-average health care trend rate	7.6%	8.5%
Ultimate weighted-average health care trend rate	4.5%	4.9%
Year ultimate rate reached	2030	2016
Other non-pension employee future benefits costs		
Discount rate	7.4%	5.5%
Rate of compensation increase	3.0% + merit scale	3.0% + merit scale
Initial weighted-average health care trend rate	8.5%	9.2%
Ultimate weighted-average health care trend rate	4.9%	4.9%
Year ultimate rate reached	2016	2016

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have had the following effects for 2010:

	Increase	Decrease
Total of current service and interest costs	$ 286	$ (225)
Accrued obligation for other non-pension employee future benefits	$ 3,126	$ (2,507)

11. ACCRUED OBLIGATION FOR WORKERS' COMPENSATION

The Corporation's accrued obligation for workers' compensation represents the unfunded liability for the costs of self-insured benefits specified and administered by the Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador, the Workplace Health, Safety and Compensation Commission of New Brunswick and the Workers' Compensation Commission of Prince Edward Island for work-related injuries of current and former employees.

The actuarially determined liability consists of an obligation for known awarded disability and survivor pensions, an obligation for all other potential future awards for past claims and other costs consisting of temporary compensation, health care expenses, rehabilitation costs and related administration costs charged by the various provincial commissions. These amounts are presented on a net present value basis taking into account inflation rates, interest rates, mortality rates and aggregate claim projections for incidents which have occurred.
An actuarial valuation was conducted as of January 1, 2009 and was extrapolated to the measurement date of December 31, 2009 (2009 - December 31, 2008). The next required actuarial valuation, expected to be completed in 2012, will be as of December 31, 2011.

The statement of income, comprehensive income and accumulated deficit includes a charge of $1,268 (2009 - $1,380) for the cost of accidents that occurred in the period, interest charged on the workers' compensation obligation, administration costs and amortization of actuarial gains and losses.

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

At March 31, the Corporation's self-insured workers' compensation costs and obligations consist of:

		2010		2009
Workers' compensation obligations (actuarial value)	$	9,108	$	9,315
Less: current portion		1,964		1,386
Non-current portion	$	7,144	$	7,929
Workers' compensation costs	$	1,268	$	1,380
Workers' compensation payments	$	1,475	$	1,779

Determination of workers' compensation costs for the year are calculated as:				
Current service cost	$	370	$	358
Interest cost		741		675
Amortization of net actuarial loss		157		347
Workers' compensation costs	$	1,268	$	1,380

Weighted-average assumptions		
Workers' compensation obligations		
Discount rate	6.4%	7.4%
Increase in average industrial wage	3.5%	3.0%
Workers' compensation costs		
Discount rate	7.4%	5.5%
Increase in average industrial wage	3.0%	3.0%
Health care cost increases	5.0%	5.0%

For the year ended March 31, 2010, the Corporation paid $358 (2009 - $391) in premiums to the Workers' Compensation Board of Nova Scotia which are included in wages and benefits in the statement of income, comprehensive income and accumulated deficit. These premiums represent the workers' compensation cost for Nova Scotia employees where the Corporation is on an assessment basis since January 1, 2003.

12. OPERATING CREDIT FACILITY

The Corporation has an operating credit facility of up to $33,348 (2009 - $35,772) available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at March 31, 2010 (2009 - nil). The credit facility is available to the Corporation as required with an annual renewal subject to the approval of the Minister of Finance, Government of Canada.

13. CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at March 31, 2010, 517,061 shares (2009 - 517,061 shares) at $0.50 per share (2009 - $0.50 per share) have been issued and fully paid.

The Corporation's capital is its equity, which comprises share capital net of accumulated deficit. Equity is represented by net assets. The Corporation's objective when managing its capital is to ensure that the Corporation has sufficient capital to meet its current and long-term obligations to suppliers and employees so that it can continue to provide its ferry services. The Corporation manages its equity by prudently managing revenues, expenses, assets, liabilities and general financial dealings to ensure that the Corporation effectively achieves its objectives and purpose while remaining a going concern. The Corporation is not subject to any externally imposed capital requirements. There has been no change to what the Corporation defines as capital or its objectives, policies and processes for managing capital from the prior year.

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

14. FINANCIAL INSTRUMENTS

(A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Corporation's financial instruments are classified as follows:

	2010		2009	
	Carrying Value		Carrying Value	
	HFT	L&R	HFT	L&R
Financial assets				
Cash	$ 2,517	$ –	$ 488	$ –
Accounts receivable	$ –	$ 9,505	$ –	$ 10,361
Receivable from Government of Canada	$ –	$ –	$ –	$ 795
Derivative financial instruments	$ 156	$ –	$ –	$ –
Restricted cash	$ 8,537	$ –	$ 10,396	$ –
	HFT	OFL	HFT	OFL
Financial liabilities				
Accounts payable and accrued liabilities	$ –	$ 18,830	$ –	$ 18,097
Payable to Government of Canada	$ –	$ 1,234	$ –	$ –
Derivative financial instruments	$ 1,865	$ –	$ –	$ –

HFT - Held for trading L&R - Loans and receivables OFL - Other financial liabilities

(B) FAIR VALUE

The estimated fair value of the recognized financial instruments other than financial instruments held for trading approximates their carrying value due to their current nature.

Fair value estimates are made as of a specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and significant judgment. The following table discloses the Corporation's financial assets and financial liabilities at March 31, 2010 measured at fair value on a recurring basis:

	2010			
	Level 1	Level 2	Level 3	Total
Cash and restricted cash	$ 11,054	$ –	$ –	$ 11,054
Derivative financial instruments – assets	$ 156	$ –	$ –	$ 156
Derivative financial instruments – liabilities	$ 1,865	$ –	$ –	$ 1,865

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

(C) DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments used by the Corporation include swaps which are typically a commodity or price swap where parties exchange payments in cash based on changes in the price of the commodity (#2 heating oil and #6 heavy fuel 1%) or a market index while fixing the price effectively paid for fuel. The Corporation uses foreign exchange forwards which are contractual agreements to buy Euros at a specified price and date in the future related to lease payments for the MV *Atlantic Vision*.

At March 31, the Corporation had the following derivative financial instruments with positive fair values:

	2010					2009	
	Period (Note 1)	Fixed Price Per Unit (Note 2)	Notional Quantity (Note 3)		Fair Value		Fair Value
Crude swap - #2 heating oil	2010	2.05 - 2.35	1,722	$	100	$	–
Crude swap - #2 heating oil	2011	2.30 - 2.321	168	$	10	$	–
Crude swap - #6 heavy fuel 1%	2010	74.00 - 78.00	40	$	46	$	–
			1,930	**$**	**156**	**$**	**–**

Note 1 - These financial instruments have a monthly settlement schedule.
Note 2 - #2 heating oil swaps are priced per US gallon; #6 heavy fuel 1% swaps are priced per barrel.
Note 3 - #2 heating oil swap quantities are based on gallons; #6 fuel 1% swap quantities are based on barrels.

At March 31, the Corporation had the following derivative financial instruments with negative fair values:

	2010					2009	
	Period (Note 1)	Fixed Price Per Unit (Note 2)	Notional Quantity (Note 3)		Fair Value		Fair Value
Crude swap - #2 heating oil	2010	2.231 - 2.375	1,302	$	(30)	$	–
Crude swap - #6 heavy fuel 1%	2010	74.95 - 82.40	47	$	(58)	$	–
Crude swap - #6 heavy fuel 1%	2011	79.65 - 81.75	8	$	(2)	$	–
			1,357	**$**	**(90)**	**$**	**–**

Note 1 - These financial instruments have a monthly settlement schedule.
Note 2 - #2 heating oil swaps are priced per US gallon; #6 heavy fuel 1% swaps are priced per barrel.
Note 3 - #2 heating oil swap quantities are based on gallons; #6 fuel 1% swap quantities are based on barrels.

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

	2010				2009
	Period (Note 1)	Forward Rate (CAD/Euro)	Notional Amount (Euros)	Fair Value	Fair Value
Foreign exchange forwards	2011	1.4096 - 1.5870	12,403	$ (1,775)	$ –

Note 1 - These financial instruments have a monthly settlement schedule.

The fair value of the derivative financial instruments is estimated at the discounted unrealized gain or loss calculated based on the market price at March 31, 2010, which generally reflects the estimated amount that the Corporation would receive or pay to terminate the contracts at the balance sheet date. The fair value of the derivative financial instruments is provided to the Corporation by the Canadian chartered bank that acts as the counterparty to the transactions.

15. FINANCIAL RISK MANAGEMENT

The Corporation is primarily exposed to credit risk, market risk and liquidity risk as a result of holding financial instruments in the normal course of business.

Credit risk: Risk that a third party to a financial instrument may fail to meet its obligations under the terms of the financial instrument.

Market risk: Risk that the fair value or future cash flows of a financial instrument may fluctuate due to changes in market prices. The Corporation is exposed to currency risk, interest rate risk and commodity price risk.

Liquidity risk: Risk that the Corporation may encounter difficulty in raising funds to meet commitments associated with financial instruments.

This note presents information about the exposure to each of the above risks, including the Corporation's objectives, policies, and processes for measuring and managing each risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors is responsible for developing and monitoring the Corporation's risk management policies.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation.

(A) CREDIT RISK

The carrying amount of cash, accounts receivable and restricted cash represents the Corporation's maximum exposure to credit risk. The Corporation's accounts receivable had a carrying value of $9,505 as at March 31, 2010 (2009 - $10,361). Accounts receivable are incurred in the normal course of business and are due on demand. The Corporation provides services to numerous customers. However, five customers represent 56% of the trade receivables (2009 - five customers represented 44% of the trade receivables). The Corporation does not consider there to be any significant credit risk associated with accounts receivable. As at March 31, 2010, approximately 9% (2009 - 9%) of trade accounts receivable, were over 60 days past due, whereas 91% (2009 - 91%) were current, or less than 60 days past due. Historically, the Corporation has not incurred any significant losses with respect to bad debts. The Corporation's allowance for doubtful accounts was $436 at March 31, 2010 (2009 - $379).

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

Details of the Corporation's trade accounts receivable at March 31 are as follows:

		2010		2009
Current	$	3,237	$	2,922
1-30 days past due		2,014		969
31-120 days past due		159		234
Past due 121 days and over		337		145
		5,747		4,270
Less: Allowance for doubtful accounts		(436)		(379)
Trade accounts receivable, net	$	5,311	$	3,891

Cash other than restricted cash is held in a Canadian chartered bank. Restricted cash is held in a Euro-denominated escrow account in a German bank. The designation of this bank as escrow agent was imposed as an inherited condition for the charter agreement. As the ferry's owner is bound under a number of security instruments, the ferry's owner was obliged to use this bank to hold the escrow funds. The German bank holds a Standard and Poor's credit rating of BBB+/Negative/A-2 as of March 31, 2010.

The Corporation's derivative financial instruments are held with a Canadian chartered bank. The Corporation considers that it is exposed to minimal credit risk in the event of non-performance as the counterparty is considered to be of high credit quality.

(B) MARKET RISK

(I) COMMODITY FUEL PRICE RISK

In order to manage the risk associated with fuel price variation, the Corporation enters into derivative contracts (swaps) with financial intermediaries. The objectives of the Corporation's fuel hedging policy are to stabilize fuel budget variances, budget amounts along the years and the fuel surcharges applied to customers. A fluctuation in vessel fuels of 5% would not have a significant impact on the financial statements. This variance is managed through fuel hedging activities as well as the fuel surcharges imposed to customers.

(II) INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The interest rate for the Corporation's cash balances varies based on changes in the prime rate. The Corporation has no significant exposure to interest rate risk.

(III) CURRENCY RISK

Currency risk arises due to fluctuations in foreign currency rates. The Corporation uses derivatives (foreign exchange forwards) to manage this risk. The Corporation makes monthly lease payments for the charter of the passenger and freight vessel, the MV *Atlantic Vision*, in the amount of 1,034 Euros. For planning and funding purposes, the Corporation uses an exchange rate of 1.60 which results in an annualized risk of +/-$138 for each $0.01 change in the exchange rate. To minimize this risk, the Corporation purchases forward contracts for the amount of the monthly lease payments when the rate can be secured at or near the budgeted exchange rate.

(C) LIQUIDITY RISK

The Corporation's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Corporation's reputation.

The Corporation strives to maintain sufficient resources to meet expected operational expenses for a period of 30 days plus a $4,000 reserve. This includes the servicing of financial obligations, but excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Corporation prepares cash flow forecasts that are regularly monitored by management and the Board of Directors. The forecasts are adjusted as necessary to reflect expected cash inflows and outflows to ensure the adequacy of cash to meet financial obligations. The Corporation receives government funding on a monthly basis.

The carrying amount of accounts payable and accrued liabilities and derivative financial instruments represents the maximum exposure to liquidity risk. The Corporation's accounts

NOTES TO THE FINANCIAL STATEMENTS March 31 (in thousands)

payable had a carrying value of $8,275 as at March 31, 2010 (2009 - $10,883) and are all due within 60 days. The Corporation's accrued liabilities had a carrying value of $10,555 as at March 31, 2010 (2009 - $7,214).

16. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under the same terms and conditions that apply to unrelated parties. During the year, the Corporation incurred expenses of $1,167 (2009 - $1,644) with other federal Crown corporations, departments and agencies. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in notes 2(b) and 4.

17. COMMITMENTS AND GUARANTEES

(A) The total amount required to complete contracted work in progress at March 31, 2010 is $5,471 (2009 - $3,915).

(B) The Corporation leases certain facilities and equipment. As well, the Corporation entered into a five-year charter agreement for a passenger and freight ferry—the MV *Atlantic Vision*. The minimum annual lease payments are as follows:

	Charter	Other	Total
2010/2011	$ 21,050	$ 202	$ 21,252
2011/2012	21,050	196	21,246
2012/2013	21,050	188	21,238
2013/2014	12,279	185	12,464
	$ 75,429	**$ 771**	**$ 76,200**

(C) The Corporation's bank has provided an irrevocable letter of credit against the Corporation's operating credit facility in favour of the Workplace Health, Safety and Compensation Commission of New Brunswick to guarantee payment of future liabilities in the amount of $4,200 (2009 - $4,200) for an indefinite period.

(D) The Corporation's bank has provided irrevocable letters of credit against the Corporation's operating credit facility in favour of RBC Dexia Investor Services Trust in Trust for The Pension Plan for Employees of Marine Atlantic Inc. in amounts totalling $29,148 (2009 - $14,950) with expiry dates of December 31, 2010. The letters of credit meet the 10-year funding requirements per the *Solvency Funding Relief Regulations* (for an amount of $18,746; (2009 - $14,950)) and the *Solvency Funding Relief Regulations, 2009* (for an amount of $10,402; (2009 - nil)).

18. CONTINGENCIES

(A) In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. The Corporation is in receipt of claims estimated at $805 (2009 - $1,729). Management has recognized an estimate of the liability.

(B) In 2005, a Tax Court of Canada ruling created a precedent for ferry operators who use the indirect method to determine their Input Tax Credits for the Harmonized Sales Tax (HST). Following the ruling, the Corporation changed its method of calculating its input tax credits.

In March 2010, the Canada Revenue Agency (CRA) issued a Notice of Assessment following an audit of the Corporation's HST returns for the period of January 1, 2006 to March 31, 2008. The Corporation was assessed $1,548 including penalties and interest. The Corporation appealed the assessment and paid the outstanding balance without prejudice to the appeal.

The Corporation estimates that should CRA reassess the subsequent April 1, 2008 to March 31, 2010 period, using the same methodology as used in the January 1, 2006 to March 31, 2008 assessment, the potential impact would be approximately $1,400 excluding penalties and interest. The Corporation has recognized $1,400 in accounts payable and accrued liabilities in the balance sheet with the expense recognized as other in the statement of income, comprehensive income and accumulated deficit. The Corporation plans to pay this amount for the April 1, 2008 to March 31, 2010 period then appeal any subsequent assessment by CRA.

(C) The Corporation self-insures against the potential loss of its docks.

19. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for 2010.

20. SUBSEQUENT EVENT

On May 17, 2010, the Corporation entered into five-year charter agreements for two passenger and freight ferries subject to the approval of funding from the Government of Canada and final approval by the Board of Directors. The vessels are expected to enter into service during the spring of 2011 and will provide necessary additional passenger and vehicle capacity. The vessels are intended to replace the MV *Joseph and Clara Smallwood* and the MV *Caribou*. The charter agreements will cost the Corporation approximately $161,000 over the duration of the agreements. On June 17, 2010, the Corporation's 2010/2011 to 2014/2015 Corporate Plan, including its strategy for fleet and shore facilities renewal and related funding requirements, was approved by the Treasury Board. The Board of Directors provided its final approval of the charter agreements on June 17, 2010.